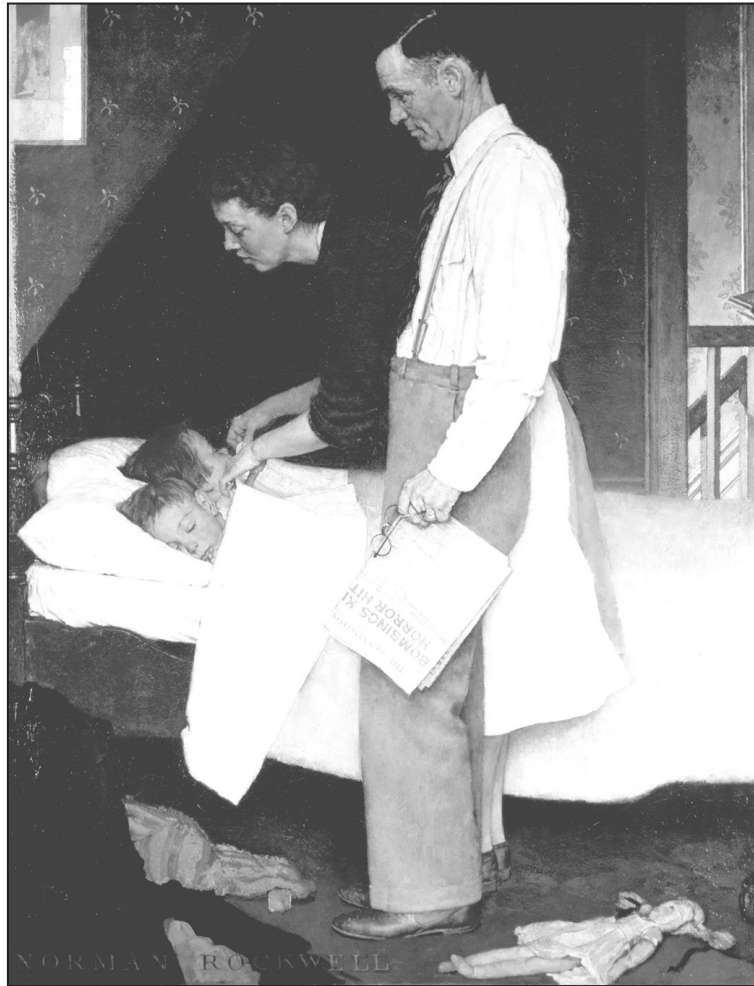


SECTION V

Findings on Compliance and Reportable Conditions Pertaining to Internal Control Structure Used in Administering Federal Programs



Freedom from Fear

The Saturday Evening Post, March 13, 1943 ©1943 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.

Freedom from Fear was the last of the four ideas to be done. These paintings succeeded in raising almost \$133 million in war-bond purchases. Norman Rockwell said the ***Four Freedoms*** were “serious paintings which sucked the energy right out of me, leaving me dazed and thoroughly weary.”

In a personal letter to Rockwell, President Roosevelt wrote, “I think you have done a superb job in bringing home to the plain, everyday citizen the plain, everyday truths behind the Four Freedoms . . .

I congratulate you not alone on the execution but also for the spirit which impelled you to make this contribution to the common cause for a freer, happier world.”



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Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 15: Excess Indirect Costs Charged not Adjusted in a Timely Manner

The Office of the Comptroller did not credit \$211,709 in FY2004 overcharges to federal programs until fiscal year 2005 (FY2005).

The Office of the Comptroller (Office) is responsible for providing instruction to program MMARS to assess all applicable appropriation accounts for fringe and indirect costs using the approved rates and bases developed and negotiated in accordance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. After departmental transactions are closed, the Office is also responsible for performing a reconciliation to ensure fringe and indirect charges in the financial statements and the schedule of expenditures of federal awards are allowable. If any overcharges are noted, the Office is accountable for posting adjustments to eliminate those overcharges.

The Office was in the midst of implementing a new accounting system during the FY2004 year-end closing process. The reconciliation and posting of adjustments to eliminate any fringe and indirect overcharges did not occur until FY2005. As a result, \$82,606 in indirect costs for FY2004 for the Improving Teacher Quality-State Grants Program, CFDA# 84.367 was not credited until November 2004.

In another case, the Office instructed MMARS to charge indirect costs to CFDA#93.053, the Title III Nutrition Services Incentive Program, administered by the Department of Elder Affairs (Department). The Department notified the Office that this program does not allow indirect costs, and that those indirect costs should be transferred to CFDA# 93.044. One transfer was made during the fiscal year; another transfer of \$129,103 was not made until November 20, 2004. (*Department of Education - Improving Teacher Quality - State Grants 84.367; Department of Health and Human Services - Nutrition Services Incentive Program 93.053*)

Recommendation

With the implementation of the new accounting and reporting system, the Office of the Comptroller should focus its efforts on performing the year-end reconciliation and post any adjustments on a timely basis to ensure amounts in the financial statement and schedule of expenditures of federal awards are properly stated.

Department Corrective Action Plan

Both the Department of Education and the Department of Elder Affairs credits were processed in FY2005 due to the closure of activity in “Old” MMARS and the timing of conversion to the new MMARS accounting system. We will continue to review these activities as part of the monthly and year-end reconciliation processes and post any necessary adjustments in a timely manner.

Responsible person: Marybeth Shaughnessy – Newell, Fred DeMinico
Implementation date: Has been implemented

Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 16: Additional Costs included in the Statewide Cost Allocation Plan

The Office of the Comptroller (Office) included \$518,000 in additional costs in computing the 2004 Statewide Cost Allocation Plan. These costs affected indirect cost rates and departmental cost allocation plans.

The Office is responsible for preparing the Statewide Cost Allocation Plan (Plan). The Plan identifies certain departments known as Central Services Agencies (CSA), which provide administrative services on behalf of other departments. The allowable costs of those CSAs are computed and allocated on a variety of equitable bases to user departments through the Plan. The U.S. Department of Health and Human Services, Division of Cost Allocation (DCA) negotiates and approves the Plan for use. The total of the applicable approved CSA allocations is incorporated in a department's indirect cost rate proposal or cost allocation plan, which is then used to charge federal programs for administrative costs.

Costs as shown in MMARS and allocable to the CSAs in accordance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* were used to prepare the 2004 Plan based on 2002 actual costs. During the audit of the 2004 Plan, the following items were noted:

- The direct-billed single audit costs to departments with major federal award programs were also included in the allocated costs of the Office of the Comptroller. As a result, there was an overstatement of \$517,000.
- Costs for health and welfare applicable to the Division of Capital Planning and Operations were overstated by \$1,000.

The total overstatement, as a result of these observations was \$518,000. The exact effect on federal programs for these total overstatements can only be determined when the CSAs are adjusted and the revised allocations are used to recompute department indirect cost rates or cost allocation plans.

Other issues were also noted in the Plan for which the dollar impact on federal programs could not readily be determined:

- An amount of \$1,432,584 identified as federal reimbursements for the Medicaid Fraud Control Unit in the Attorney General's Office (Office) could not be verified. Reimbursements reduce the amount allocated to other CSAs and departments. In addition, \$19,532 in health and welfare costs and \$64,942 in Information Technology Division costs were not included in the Office's expenditures. It affected the allocation of CSA costs between allowable and unallowable activities within the Attorney General's Office and between the other CSAs and other departments.
- Understated costs of \$88,837 resulted from the omission of CSA costs that were supposed to be allocated to other departments.
- In the Office of the State Treasurer and Receiver General, using an apportionment formula, rather than specific identification of costs for those activities, resulted in a \$10,766 overstatement of costs for an unallowable function, which affected the subsequent allocations between allowable and unallowable functions.

Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 16: Additional Costs included in the Statewide Cost Allocation Plan (continued)

Certain issues noted the FY2003 Plan, did not appear in the FY2004 Plan as follows:

- There was no duplication of costs in two different CSAs (Office of the Comptroller and Human Resources Division) for information technology relating to processing the payroll. The FY2005 Plan will be adjusted for the \$529,937 overstatement in the FY2003 Plan.
- The proper rate was used to compute the costs for health and welfare benefits paid on behalf of employees for the Office of the State Treasurer. The FY2005 Plan will be adjusted for the \$27,484 overstatement in the FY2003 Plan.
- The formula for adding payroll cost for the Office of the Comptroller was corrected and additional costs were not claimed. The additional costs claimed of \$9,711 in the FY2003 Plan will be adjusted in the FY2005 Plan.
- Medicare costs related to the central service administrative pool for the Executive Office for Administration and Finance was included in the Plan. The \$30,020 understatement in the FY2003 Plan will be adjusted in the FY2005 Plan.
- Over and understatements of costs resulting from the final determination of FY2001 actual costs for mail, computer, and telecommunications rates by the Information Technology Division were included in computing the CSAs as agreed to with DCA. This issue is resolved.

Other issues in the FY2003 Plan relating to \$525,000 in direct-billed single audit costs, the understatement of total cost for three CSAs by \$40,000, \$6,563 and \$3,437, which affected the subsequent allocations between allowable and unallowable activities within the CSAs and between the CSAs and other departments will be adjusted in FY2005 Plan. (*Unknown Federal Programs; Fiscal Year 2003 Single Audit Finding 29*)

Recommendation

The Office of the Comptroller should continue to carefully review all Statewide Cost Allocation Plans to ensure costs are complete, accurate, based on approved agreements for the proper fiscal period and net of applicable credits prior to submission.

Department Corrective Action Plan

The 2004 Plan, which was the plan under audit, was submitted to the Federal Cognizant Agency in advance of the FY2003 Single Audit findings publication. As a result, the 2005 Plan contains adjustments for the FY2003 activity and additional documentation needed to substantiate amounts. The 2005 Plan also was the result of a top to bottom six-month review by this Office. As part of the 2006 Plan, we will make appropriate adjustments pertaining to those above to properly reflect the mentioned issues

Responsible person: Marybeth Shaughnessy – Newell, Fred DeMinico
Implementation date: Has been implemented

Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 17: Documentation Supporting the Statewide Cost Allocation Agreement Needs Improvement

The Office of the Comptroller (Office) needs to improve the documentation it prepares to support those sections of the Statewide Cost Allocation Agreement for which it has responsibility.

One unit within the Office is responsible for negotiating the Statewide Cost Allocation Agreement (Agreement), with U.S. Department of Health and Human Services, Division of Cost Allocation (DCA). Section I of the Agreement, identifies and allocates the allowable costs of Central Service Agencies (CSA) to user departments. In preparation for Section I negotiations, the Office prepares and submits a Statewide Cost Allocation Plan (Plan) which is certified as complying with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (Circular) by the Deputy Comptroller. Section II of the Agreement, lists those fringe benefits and other services that are directly billed to user departments.

During the audit of Section I of the Plan prepared by the Office, the following issues were noted, many of which were noted during the review of the FY2003 Plan:

- A reconciliation was not prepared between all appropriation and revenue accounts for some central services agencies, which support the certified financial statements, and the amounts that were ultimately used in the Plan.
- The Schedule of Costs to be Allocated by Function for all agencies did not readily tie to Schedule A, the Approved Fixed Central Service Allocations, as agreed to with the DCA. Intermediary calculations showing which CSA functions were not allocated were also not prepared.
- The inclusion or exclusion of costs, such as depreciation, was not consistent throughout the CSAs.
- The written methodology was not sufficiently detailed to provide a step-by-step instruction on constructing the Plan and identifying areas that may need to be adjusted when changes occur within CSAs. A step-by-step methodology would strengthen internal control over Plan's preparation. The methodology was copied from the previous year without determining whether it was appropriate.
- The Plan submitted to DCA showed total allocation amounts for debt management and other unallocable functions within the Office of the State Treasurer and Receiver General as \$158,652 and \$7,117,895. The supporting documentation showed the amounts were \$683,856 and \$6,592,691, respectively, a variance of \$525,204 between categories.

Included in Section II of the Agreement, are services that are furnished and billed to user departments. Some of these services such as Unemployment Insurance, Medicare tax, Universal Health Insurance, the Liability Management and Reduction Fund - and the fringe benefit rate, which includes group insurance, pension costs and terminal leave - are administered by the Office. Other services, such as motor vehicles, the data center and state auditor costs are administered by other departments. OMB Circular A-87 and ASMB C-10 *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government*, the implementation guide (Guide) for Circular A-87, specifies certain minimum documentation in Sections 4.5.1, 4.5.2 and 4.7 of the Guide, which must be prepared for internal service funds and other Section II billed services that are charged to federal awards. The Office did not prepare an accumulated earnings statement as part of its reconciliation of revenues to expenditures for Unemployment Insurance, Medicare, Universal Health Insurance and the Liability Management and Reduction Fund. Office personnel indicated that this type of documentation had not been requested by DCA in the past.

Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 17: Documentation Supporting the Statewide Cost Allocation Plan Needs Improvement (continued)

A review of the reconciliations for Unemployment Insurance (UI), and Universal Health Insurance (UHI) disclosed that the distribution of costs between UI and UHI had a \$599,183 variance between those two accounts, which would affect their accumulated earning statements. In addition, the reconciliation for the Liability Management and Reduction Fund did not include revenue of \$39,864 brought forward from a prior year. Not including prior year unspent revenue would result in an understatement of accumulated earnings.

The exact impact on Federal programs for these items could not be determined. The Office has stated it plans to perform a complete review of the FY2005 Plan and revise their procedures where necessary.
(*Unknown Federal Programs; Fiscal Year 2003 Single Audit Finding 30*)

Recommendation

The Office should continue its efforts to ensure that all costs and revenues applicable to each central service agency are reconciled to the Plan. Any CSA function that is not included in the final allocation should be indicated. In addition, the written methodology should describe an overall approach of which specific cost elements will and will not be included for all CSAs and what areas should be considered in the future, thereby providing guidance when changes occur within central service agencies. Finally, all required documentation should be prepared for any Section II costs for which the Office has responsibility

Department Corrective Action Plan

The 2004 Plan, which was the plan under audit, was submitted to the federal cognizant agency in advance of the FY2003 Single Audit findings publication. As a result, the 2005 Plan contains adjustments for this activity and additional documentation needed to substantiate amounts. The 2005 Plan also was the result of a top to bottom six-month review by this Office. We have already started on the 2006 Plan and intend to improve on its documentation even further.

Responsible person: Marybeth Shaughnessy – Newell, Fred DeMinico
Implementation date: Has been implemented

Division of Unemployment Assistance Background

The Division of Unemployment Assistance (Division) formerly known as the Division of Employment and Training (DES) falls under the Department of Labor and Workforce Development (DLWD). Chapter 26 of the Acts of 2003 divided DES into two divisions, the Division of Unemployment Assistance (DUA) and the Division of Career Services (DCS). The DUA administers the Employment and Training Law as detailed in MGL, Chapter 151A. In November of 2003, DLWD delegated the authority to manage and administer the Workforce Investment Act (WIA), which superceded the Job Training Partnership Act, to DCS. Chapter 149 of the Acts of 2004 officially denoted DCS as a division of DLWD.

The DUA is responsible for prompt payment of unemployment insurance benefits, employment training services for eligible claimants, matching job seekers with appropriate jobs, and processing revenue collection and payments. DUA is primarily supported by federal funding and some interdepartmental service agreements with other state agencies.

The DCS oversees the Commonwealth's network of One-Stop Career Centers that assist businesses in finding qualified workers and provide job seekers with career guidance as well as referral to jobs and training. For FY2004, the DUA/DCS expended approximately \$2.71 billion of which \$2.69 billion were payments made under various federal programs.

The federal funding to this Division is detailed in the accompanying Schedule of Expenditures of Federal Awards.

The Division's major federal programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
17.225	Unemployment Insurance Program
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers

No findings resulted from our audit of these federal award programs.

Department of Education Background

The Department of Education (Department) is the state agency responsible for administering the laws and regulations pertaining to elementary and secondary education, for distributing state and federal funds to local educational agencies, and for improving the quality of education for all public school students in the Commonwealth. The primary responsibility for the operation of schools rests with local and regional school committees. The Department carries out its mandate by providing assistance and funds to the schools, by setting standards, by administering regulations, and by collecting data on the condition of education.

During FY2004, the Department administered approximately \$3.8 billion of state funds, and approximately \$600 million of federal funds.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<u>CFDA#</u>	<u>Federal Program Description</u>
84.010	Title I Grants to Local Education Agencies
84.027	Special Education – State Grants
84.173	Special Education – Preschool Grants
84.367	Improving Teacher Quality – State Grants
10.558	Child and Adult Food Care Program
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Programs for Children

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 18: Inadequate Administrative Expenditures Procedures

The Department of Education (Department) does not have adequate review and approval procedures in place to prevent or detect unallowable charges to federal grants.

The Department has described the control activity for charges to federal programs to be the review and approval of all expenditures by the federal program manager or the fiscal staff assigned to the program. The program managers and fiscal staff have been trained to perform the reviews, but the process has not yet been documented as formal policies and procedures.

Twenty administrative expenditures were tested from four major federal programs. Lack of proper approval was noted for four of the expenditures tested.

One selection, in the amount of \$54 for travel, was charged to the Title I program. There is no evidence that the travel was related to Title I. This expenditure was not approved by the Title I program manager nor by the Title I fiscal liaison. Instead, the Deputy Commissioner of the Department approved it. In addition, travel reimbursement was not included in the contract that supported the payment and the payment was charged to an object code for personal service of an intern that does not allow for travel costs. The contract supporting the encumbrance that was referenced for this transaction was reviewed but it lacked any approval by the Title I staff. Consequently, the likely error is for the entire amount paid to the intern (\$4,387), all of which was charged to Title I without approval by the Title I staff.

Another selection in the amount of \$303 was for telephone charges for international calls made outside of normal business hours with no support that they were for allowable activities. The calls were clearly identified on the billing as international calls with the time and date of the calls. The invoice for this particular expenditure was approved without proper review to determine if these costs were allowable. The process described to the auditors as indicated above, as the policy for approval of expenditures, is that the federal program manager or the program fiscal liaison reviews and approves the payments. This expenditure was charged to Title I, but was not approved by either the federal program or fiscal liaison staff; it was reviewed and approved by a staff member familiar with telecommunications. It appears that, in practice, the general administrative expenditures are reviewed and authorized by managers familiar with the administration of the Department rather than federal program or fiscal managers. The likely error cannot be easily quantified but it should be noted that the individual reviews and approves all telecommunications expenditures.

Two selections totaling \$258 were for employee travel expenditures that were approved by individuals not having the proper authority for approval. There is a list of authorized signatories for each grant but it was not used as part of the review of these expenditures. The travel was determined to be an allowable activity for the Special Education Program and therefore these costs are not questioned.

There is a control activity in place that all expenditures are reviewed and approved by a member of the finance unit prior to entry into the MMARS system for payment. Each of the above did bear the signature of the individual responsible for this final review. However, the final review failed to detect the errors cited above. The 20% rate of undetected errors found in the sample of transactions tested indicates the possible errors in the entire population, while not easily quantified, could exceed \$10,000. (*Department of Education - Title I Grants to Local Education Agencies 84.010; Special Education 84.027; Fiscal Year 2001; 2003 Single Audit Finding 34*)

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 18: Inadequate Administrative Expenditures Procedures (continued)

Recommendation

A recommendation was made in 2001 that policies and procedures be established to provide assurance that all state and federal procurement laws and regulations were adhered to. The Department should continue to develop and document these policies and procedures. They should be clear as to the control activity of review and approval of federal expenditures by specific positions within the Department. In addition, the list of proper authorized signers for the approval of expenditures should be used and adhered to more carefully.

Department Corrective Action Plan

The first two of the exceptions mentioned in this finding were items that were processed using our budgeting method for allocating costs relating to multiple programs. This practice has ceased starting with FY2005 with the implementation of our cost allocation plan. Therefore, these two expenses were not processed by our normal system of authorizations by program fiscal liaisons and administrators. Regarding the phone expenses for international calls, while we do have these types of calls on occasion, upon further review it appears that these instances did not meet those criteria. We have discussed with the appropriate staff to ensure greater vigilance with the review of these invoices.

Regarding the travel vouchers authorizations. The individuals that approved the travel vouchers were authorized as supervisors to approve travel but not the corresponding expense vouchers. We are reviewing the approval levels for these instances and will either change the signature approval level for expenditures or re-emphasize to all what the process is and who is authorized for certain functions. Either way, we will work to ensure proper approvals are secured prior to paying invoices.

We will continue to provide staff training and update procedures when applicable.

Responsible person: Anthony DeLorenzo
Implementation date: January 1, 2005

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 19: Cost Allocation Plan Needed

The Department of Education (Department) does not have an approved cost allocation plan in place to properly charge and classify the administrative expenditures necessary to manage its federal and state programs.

Twenty administrative expenditures were tested from four major federal programs. Two of the twelve non-payroll administrative expenditures totaling \$3,415 were charged to federal programs without an approved cost allocation plan. The lack of a cost allocation plan could lead to costs that exceed \$10,000 in total to be charged to federal grants without proper support.

Discussions with Department officials disclosed that central general and administrative technology and central technology administrative expenditures that benefit all of the Department's programs are often totally charged to federal programs based on budgeted amounts or because no state funds are available to pay the bills. While charging federal programs for a portion of these central administrative expenditures may be appropriate, the charges should be made in accordance with an approved cost allocation plan so that the federal programs are only charged in proportion to the benefit received.

During FY2003 the Department issued a Request for Response to hire a consultant to prepare a cost allocation plan. The plan has since been completed and submitted to the U.S. Department of Education (USDOE) for approval. Although the plan has now been approved, it was not in place and approved during FY2004. (*Department of Education – Title I Grants to Local Education Agencies 84.010, Improving Teacher Quality State Grants 84.367; Department of Agriculture – Child and Adult Food Care Program 10.558, National School Lunch Program 10.555; Fiscal Year 2001; 2003 Single Audit Finding 34*)

Recommendation

The Department should start following the methodology in the approved cost allocation plan when charging central administrative expenditures to federal programs. In addition, as recommended in the previous finding, the Department needs to develop and document policies and procedures to adequately review and approve expenditures for accuracy and allowability before they are charged to the pool of costs that will ultimately be recovered through the cost allocation plan. Costs that are unallowable to be charged directly to a federal program are also unallowable to be charged indirectly through a cost allocation plan.

Department Corrective Action Plan

As stated in this finding, the Department has already developed a Cost Allocation Plan (CAP) that was reviewed by the Massachusetts Comptroller's Office and was approved by USDOE in May of 2004. This approval occurred too late to implement in FY 2004.

The implementation of this CAP and the corresponding new indirect cost rate along with the Department's ability to retain a portion of these indirect funds will allow the Department to stop its past practice of direct charging federal funds for indirect activities.

Responsible person: Anthony DeLorenzo
Implementation date: January 1, 2005

Department of Education Findings on Compliance with Rules and Regulations

Finding Number 20: Vocational Education Program Maintenance of Effort Requirements not Met

The Department of Education (Department) did not meet the maintenance of effort requirements for the administration of the Vocational Education Program. The Department missed the maintenance of effort (MOE) requirement by \$1,429,789.

According to Federal regulation 34 CFR 403.181(c), a State must provide from non-Federal sources for State administration under the Perkins Act, an amount that is not less than the amount provided by the State from non-Federal sources for state administrative costs for the preceding fiscal or program year.

The Commonwealth of Massachusetts, like most states, is having financial problems and as such did not have the funds available as in prior years to provide for the administration of the Vocational Education Program. (*Department of Education – Vocational Education, Basic Grants to States 84.048; Fiscal Year 2003 Single Audit Finding 36*)

Recommendation

The Department should work with state administration and finance officials to seek the funding necessary to meet federal requirements.

Department Corrective Action Plan

The Commonwealth did not have the funds available to meet the maintenance of effort requirement during FY2004. We were able to meet our matching requirement for the year. Aware of the situation, in March 2004, we requested a waiver from the United States Department of Education (USDOE) for the year in question. We have subsequently submitted requested information regarding this waiver and are still awaiting word on this subject. We have seen an increase in funding for FY2005, which should alleviate this issue.

Responsible person: Jeffrey Wheeler
Implementation date: October 1, 2004

Department of Education Findings on Compliance with Rules and Regulations

Finding Number 21: Reallocation of Title I Funds in Excess of the 15% Carryover and Measurement of Local Education Agency (LEA) Cash Needs Improvement

The Department of Education (Department) did not properly reallocate the funding that was in excess of the 15% carryover allowed for each LEA, as required.

An LEA that receives \$50,000 or more in Title I, Part A funds cannot carryover beyond the initial 15 months of availability more than 15 percent of the Title I, Part A funds. An SEA (State Education Agency) may grant a waiver for the percentage limitation once every three years if the request is reasonable and necessary. An SEA may also grant a waiver in any fiscal year in which supplemental appropriations for Title I become available for obligation.” (Section 1127 of ESEA (20 USC 6339)).

The Department provided a worksheet to support the calculation of the allowable carryover amount for each LEA, the expenditures of the LEA, calculation of the amount for carryover into FY 2004 and the amount available for reallocation in FY 2004. One of the five LEAs selected for testing appeared to exceed the allowable carryover and had amounts calculated as available for reallocation totaling \$551,468. In total, nine LEAs had excess carryover of \$635,842. None of these amounts were reallocated.

Department personnel explained that the Department grants the LEAs an additional month after the grant year to spend down any excess above the 15% allowed. They further explained that LEAs are often late in filing their final expenses for the year so that determining the actual amount of the carryover is difficult. They further explained that they unsuccessfully attempted to contact the LEAs in order to determine whether a waiver was needed or whether the LEA had actually utilized the funds during the initial 15 months of availability.

The report provided by the Department to enable us to determine its compliance with the 15% carryover provision led us to also determine that, as of June 23, 2004, LEAs had in excess of \$3million of cash on hand remaining from the FY2003 grants. Department officials stated that they believe this showing of excess cash is more of a reporting issue than actual cash in the hands of the LEAs; i.e., the information reported by the LEAs is not accurate, the cash has been expended. As explained in Finding Number 22, Department officials believe that the quarterly allotments to LEAs comply with United States Department of Education (USDOE) regulations. In addition, they explain that the LEAs have 27 months to expend grant funds and that, while they understand how this reported cash on hand may conflict with cash management regulations, they believe the Department is in compliance with all applicable federal regulations. (*Department of Education – Title I Grants to Local Educational Agencies 84.010; Fiscal Year 2003 Single Audit Finding 40*)

Recommendation

The Department must create a control environment for the management of federal grants that includes a timeline, verifications and detailed supervisory review of complicated work. The Department did improve its procedures to measure the 15% carryover; however, it still did not reallocate the excess carryover. A checklist or other tool must be developed and provided to the individual with overall responsibility for the fiscal management of the grant. This tool should spell out the many tasks that must be completed. More importantly, the checklist must include a strict deadline date for LEAs to submit documentation supporting expenditures in order to reallocate the funds over the 15% carryover limit before the end of the grant year. Both the individual performing the task and the manager responsible for reviewing it should sign the checklist.

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 21: Reallocation of Title I Funds in Excess of the Title I 15% Carryover and Measurement of LEA Cash Needs Improvement (continued)

Recommendation (continued)

The Department also needs to definitively determine whether the LEAs actually have excess cash on hand or are reporting inaccurately. If it is determined that it is excess cash, the Department needs to request that the LEA return the cash or offset the next payment to the LEA. LEAs that are not spending all of their Title I funds are depriving those LEAs who are and who could use the additional reallocation. If it is determined that the LEAs are reporting inaccurately, the Department needs to stress the importance of accurate reporting.

Department Corrective Action Plan

The finding notes that the auditors identified, from Department reports, \$635,842 in excess carryover had not been reallocated. Although appropriate waivers were granted for those funds, and none of it was required to be reallocated, the Department acknowledges that that information was not made available to the auditors in a timely manner.

The current procedures for tracking Title I carryover will be reviewed and adjustments made as needed. Title I and Grants Management have discussed and agreed on new steps to ensure and document that all recipients submit final expenditure reports in a timelier manner. If it is determined that recipients have excess carryover and no waiver can be granted, those funds will be reclaimed and made subject to the reallocation process no later than mid-January following the reporting cycle.

The Title I director will begin discussion with USDOE officials to clarify the concerns raised by the auditor regarding the carryover provision as it relates to grant recipients and the perception of excess cash.

Responsible person: Barbara Solomon, Title I Director
Ron Honesty, Director, Grants Management
Implementation date: November 15, 2004

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 22: Questionable Advance to a Local Education Agency (LEA)

The Department of Education (Department) did not follow the procedure established by the Grants Management Unit for the issuance of a grant payment to a Local Education Agency.

Department policies and procedures require that all "special requests" (i.e. for grants over \$25,000, a request for more than 1/4 of the grant) for payments from LEAs must have a written justification and be reviewed by the payment supervisor or the administrator before processing. In a review of 40 payments to LEAs for this grant, one was a "special request". Contrary to Department policy, it was entered, processed, and paid without the attention of a supervisor or manager. When brought to the attention of the head of the grants management unit, he explained that the "special request" was not of a nature that should have been approved based on the documentation provided by the LEA.

The LEA was paid an amount equal to 3/4 of the annual award in February 2004. The LEA had received its first 1/4 of the annual award amount in September 2003. In these two payments 100% of an award for the grant period July 1, 2004 to August 31, 2004 was paid six months before the end of the period. The LEA's February 2004 request did not provide support that the LEA had "immediate" need of the funds or what strategies were taken to "minimize the time elapsing between the transfer of funds and distribution by the subgrantee" as required by 34 CFR Section 80.21 (b) & (c).

The "special request" provision allows LEAs to request funds outside of the Department's usual policy of distribution of funds - 1/4 at the time of the award and quarterly thereafter based upon the LEA requests (Form RF-1) for funds. These "normal" requests for funds are supported by the actual grant spending to date and an estimate of need. Department officials believe that this long time practice meets the requirements of 34 CFR Section 80.21 cited above. However, 34 CFR 80.21 also references Treasury regulations 31 CFR Part 205 which contain the Cash Management Improvement Act (CMIA) regulations. The Commonwealth, like other states, has a CMIA agreement with the U. S. Treasury. The USDOE programs included in the Single Audit are included in this agreement and the federal funds are drawn from the Treasury for the programs on a reimbursement basis (average clearance pattern funding technique). Since subrecipients (LEAs) must "conform substantially to the same standards of timing and amount as apply to the pass-through entity", payment six months in advance seems to clearly be at odds with the standard. (*Department of Education - Special Education 84.027*)

Recommendation

The Department should reemphasize to its staff the existence of the procedure and controls established for the payment of special requests and consider whether additional controls are needed for the detection of transactions that were processed without proper approval. The size of the payment should make it easily identifiable as one needing additional review after the fact. The Department should amend its "special request" policies to require LEAs to provide documentation that the funds have already been spent, thus seeking reimbursement for allowable costs, or that the funds will be spent in the very near term. The U. S. Treasury regulations suggest that advances should be spent within 3 business days.

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 22: Questionable Advance to a Local Education Agency (continued)

Recommendation (continued)

In conjunction with the recommendation in Finding Number 21, regarding the determination of excess cash at the LEAs, we believe the Department needs to review the federal regulations to determine whether its current policy of quarterly allotments meets the federal “minimize the time elapsing between the transfer of funds and distribution by the subgrantee” standard. If necessary, the Department should consult with USDOE to determine whether the program regulations which allow LEAs to expend the grant funds over 24 or 27 months also allows the LEAs to have cash on hand in excess of their immediate needs.

Department Corrective Action Plan

As explained to the auditors, the request in question had limited information that required further research and review before being processed. The auditor noted the grantee was paid the balance of the grant, an amount equal to $\frac{3}{4}$ of the total. Based on the initial information provided by the grantee, it would have been more reasonable to expect a payment equal to $\frac{1}{2}$ the remaining balance. The staff person responsible has been given retraining on the required procedures regarding authorization.

The existing policy and procedures for payments have been reviewed with all pertinent staff. Emphasis was given to the importance of proper review, documentation and authorization of all “special requests”.

It was also made clear to the auditor that Department procedures are designed to meet the federal standard to “minimize the time elapsing between the transfer of funds and distribution by the subgrantee.”

Responsible Person: Ron Honesty, Director, Grants Management
Implementation Date: September 21, 2004

Department of Education Findings on Compliance with Rules and Regulations

Finding Number 23: Improvements Needed in the Calculation of Adequate Yearly Progress (AYP)

The Department of Education (Department) has worked diligently to implement the changes required in the Title I program as a result of the amendment by the No Child Left Behind Act of 2001 (NCLB). A recent review by the U. S. Department of Education (USDOE) of the Student Achievement and School Accountability (SASA) Programs indicates that of 39 critical monitoring elements the Department met, or exceeded, the requirements for 35. Of the four findings included in the report based on that review, three were found at the Local Educational Authority (LEA) level and one at the Department level. The one Department level finding identified requires the Department to amend its calculations to include the "other indicator" to more fully comply with 34 CFR §200.19(a) for identifying the AYP of schools and LEAs needing improvement. AYP is calculated as part of the process to determine those schools in need of improvements.

The audit steps required in the A-133 Compliance Supplement for Title I include the review of how:

...the SEA collects, compiles, and determines the accuracy of information obtained about the number and names of schools and LEAs in need of improvements and reports this data to USDOE and the public.

The Department has procedures in place to develop the information and does report it to USDOE and the public. The reports do rely on the measurement of AYP and, according to the federal report, the process of developing the AYP needs improvement. The Department has agreed to make changes by including the "other indicator" in the method used to calculate AYP to better meet the explicit federal requirements. The change in method is not likely to change the resulting list of schools in need of improvement.

The LEA level areas found in need of improvement were in the elements of hiring and retaining highly qualified staff, the completeness of school improvement plans, and the development of school-wide programs. (*Department of Education – Title I Grants to Local Educational Agencies 84.010*)

Recommendation

The Department responded to the federal report in an August 2004 letter. It would seem that the "further actions required" and the Department's proposed resolutions are clearly documented. The Department should ensure that any changes required are implemented and that all LEAs are aware of the requirements highlighted in this federal report.

Department Corrective Action Plan

This finding relates to a draft report of a monitoring visit performed by USDOE in March of 2004. We have already agreed to amend our AYP determination process to comply with the USDOE regulatory requirement that the additional indicator be a factor in determining AYP for all schools. We have revised our workbook accordingly. Final approval is expected after USDOE completes their review of the revision and issues a final report.

Responsible person: Juliana Dow, Accountability
Implementation date: December 31, 2004

Department of Education

Findings not Repeated from Prior Years

1. The Department had improved its system for charging and adjusting salaries charged to federal programs. Further improvements, however, were still needed. The Department received additional clarification from the US Department of Education approving the salary adjustment to the total federal program rather than on an individual-by-individual basis. *(Fiscal Year 2003 Single Audit Finding 35)*
2. The Department did not have a system in place that allowed for the identification and classification of expenditures to document that the Special Education earmarking requirements for state set-asides were met. The Department developed a system that adequately identified and classified expenditures to document that earmarking requirements were met. *(Fiscal Year 2003 Single Audit Finding 37)*
3. The Department needed to continue to improve the process and procedures used to determine LEA compliance with the maintenance of effort requirements. The Department improved the timeliness of its analysis of the End-of-Year reports so that it could determine LEA compliance with the maintenance of effort requirements. *(Fiscal Year 2003 Single Audit Finding 38)*
4. The Department did not have adequate control procedures in place to verify the amounts included in federal reports. The Department improved its control procedures to verify the amounts included in federal reports and no similar errors were noted in the 2004 audit. *(Fiscal Year 2003 Single Audit Finding 39)*
5. The Department needed to increase the communication and interaction between units responsible for awarding and disbursing grants to LEAs. The communication and interaction between units within the Department did increase and improve and no similar problems in amounts were noted during the 2004 audit. *(Fiscal Year 2003 Single Audit Finding 41)*
6. For the fiscal year ended June 30, 2003, the Department did not monitor the Improving Teacher Quality State Grants (Title IIA) federal awards to LEAs. The Title IIA program has been included in the Grants Monitoring Checklist and the Title I monitoring tool. Additionally, Title IIA has been included in the monitoring schedule. *(Fiscal Year 2003 Single Audit Finding 42)*

Department of Revenue/Child Support Enforcement Background

The Division of Child Support Enforcement (Division) is organizationally part of the Commonwealth's Department of Revenue and receives its mandate pursuant to Massachusetts General Laws Chapter 119A. The Division is the single state agency within the Commonwealth that is designated as the IV-D agency pursuant to Title IV, Part D of the Social Security Act. In accordance with the provisions of the law, the Division provides IV-D services to families, whether or not they are recipients of public assistance, to establish, modify, and enforce child support obligations. The services include location of obligees and obligors, the establishment of paternity, the establishment, modification, and enforcement of child support orders, including orders for health care coverage, and the collection and disbursement of support payments.

During FY2004, the Division's total expenditures were approximately \$63 million.

The federal funding to the Division is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Division's major program was:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.563	Child Support Enforcement

Department of Revenue/Child Support Enforcement Findings on Compliance with Rules and Regulations

Finding Number 24: Ineffective Case Tracking and Management System

The Department of Revenue/Division of Child Support Enforcement (CSE or Division) needs to improve its system for tracking and managing child support cases. Of the 25 case files selected for testing, 14 cases were not administered in accordance with federal regulations.

(A) A violation of 45 CFR 303.2 was noted in 11 of the 25 cases tested. In accordance with 45 CFR 303.2, upon complete referral or the submission of a complete application, the case must be assessed and additional necessary information obtained within 20 days. In all 11 cases, a review of the respective cases' Records of Support Action disclosed that necessary information was not obtained within twenty days after submission of the complete application. In all 11 cases, the assessment did not take place until respectively 73, 52, 45, 113, 38, 47, 63, 53, 44, 73 and 89 days after receiving the respective applications, which exceeds the 20-day window for case assessment.

(B) A violation of 45 CFR 303.4, establishment of support obligations was noted in three of the 25 cases tested. In accordance with 45 CFR 303.4, within 90 calendar days of locating the alleged father or non-custodial parent (NCP), regardless of whether paternity has been established, an order for support must be established or the proceedings necessary to complete service of process to establish a support order and, if necessary, paternity, must commence. It was noted in all three cases whereby the location of the NCP was established, a court order to establish support was not issued within the stipulated 90 calendar days. In the first case, the location of the NCP was established in February 2004 and the "service of process" was not made until June 2004. In the second case, the location of the NCP was established in May 2004 but as of August 2004, CSE had not initiated a "service or process". In case three, the NCP was located in April 2003, but CSE did not initiate a "service of process" until October 2003.

The Division's 2004 Self-Assessment Review Report, required by federal statute, 42 USC 654.15, found similar violations regarding (1) the Establishing of Paternity and Support Orders—61 error cases of the 102 tested, (2) Case Closure—18 error cases of the 126 tested and (3) interstate services—62 error cases of the 145 tested. Overall, the Report found that the Division was compliant in five of the eight performance criteria and non-compliant in the three cited above. However, the Division's action (acceptance) rate decreased from 62% to 57% in the area of Interstate Services and from 93% to 86% in the area of Case Closure.

The Division's ineffective case tracking and management system suggests a weakness in the *Commonwealth of Massachusetts Enforcement Tracking System* (COMETS), its comprehensive case tracking and management system, and/or a failure in enforcing and monitoring compliance with policies and procedures and laws and regulations, and may render its case management database unreliable. (*Department of Health and Human Services – Child Support Enforcement 93.563; Fiscal Year 1989; 2003 Single Audit Finding 43*)

Recommendation

We recommend that the Division enforce its policies and procedures to comply with federal requirements governing case file review and administration, including periodic training for its caseworkers. Supervisors should also review the work performed by caseworkers to ensure that all case files are complete and accurate, that the Division's policies and procedures are followed, and that federal compliance requirements are met.

The Division's Internal Audit Unit should continue to review case files with all active files being reviewed at least once every three years. These reviews should be documented and any identified errors logged to include a description of the error, the follow-up procedures performed, and how these errors are ultimately resolved or corrected.

Department of Revenue/Child Support Enforcement Findings on Compliance with Rules and Regulations

Finding Number 24: Ineffective Case Tracking and Management System (continued)

Recommendation (continued)

The Division should continue to provide effective training for caseworkers, which focuses on adhering to federal requirements surrounding case file review and management.

Department Corrective Action Plan

CSE is undergoing a comprehensive business process redesign. CSE plans to redesign its organizational structure, workflow, and business processes to improve performance, make maximum use of human resources and information technology, reduce costs, and improve the quality of customer service. Our goal is to change how we handle cases so that parents know who is handling their cases and can get prompt answers to their questions. By promoting case ownership, we will assign responsibility for cases, reduce the volume of calls handled by our customer service bureau, and help ensure required actions are taken on cases in a timely fashion. Case ownership will address the errors cited in the audit, because the worker will have full responsibility for ensuring that the appropriate actions are taken on a timely basis. CSE expects to implement this case model within state FY2005.

To improve location for both pre-obligated and obligated cases, CSE has contracted with a vendor to gain access to more than 40 proven location databases, including all four credit bureaus and national locate databases such as Choicepoint and DCS-Amerfind, to find, retrieve, and verify information pertaining to case participants' addresses. Addresses have to be identified on multiple databases to be considered valid. The vendor will also utilize predictive dialing and direct mail as means of verification. Case participants without telephone numbers are sent letters requesting confirmation of their addresses by telephone or return mail response. The vendor will also provide unverified information on a case participant's employment, telephone number, assets, death, Social Security number, and date of birth.

Data will be exchanged between CSE and the vendor through an electronic file transfer protocol. When data is returned to the caseworker, the worker will determine the next necessary step. The contract will be effective November 2004; test files will be sent with initial returns expected in December. CSE is assessing the feasibility of importing the vendor locate data directly into COMETS for automated processing. CSE has also established a location workgroup to examine ways to streamline location processes.

CSE is engaged in a detailed system interface analysis with the Department of Transitional Assistance to improve the quality and transmission of data on public assistance cases. CSE will further automate the case creation process to comply with the twenty day assessment period. The analysis is due by January 2005.

Responsible person: Paul Cronin
Implementation date: January 2005

Department of Revenue/Child Support and Enforcement Findings not Repeated from Prior Years

1. The Department of Revenue/Division of Child Support Enforcement Commonwealth of Massachusetts Enforcement Tracking System (COMETS), its comprehensive case tracking and management system, was not in compliance with federal regulations resulting in a \$7.6 million penalty imposed by the federal government. The COMETS system is now in compliance with federal regulations and no penalties were assessed in FY2004. *(Fiscal Year 2003 Single Audit Finding 44)*

Department of Public Health Background

The Department of Public Health (Department) protects public health through a wide variety of activities. The Department monitors the quality of the Commonwealth's health care facilities and regulates the environment, health, and sanitation of food, drugs, and other consumer products. Through its hospitals, it provides direct care services, inpatient hospital care, and education, with special emphasis on populations not adequately treated by the voluntary and private sectors.

Through its providers and various outreach programs, the Department provides a broad range of preventative and health promotion services. Environmental health education informs the public about hazardous substances in the workplace. The maternal and child health program offers specialized health care for high-risk infants to help curb infant mortality and prevent later health complications. Substance abuse services include education, counseling, and youth intervention programs. The Childhood Lead Poisoning Prevention Program provides in excess of 300,000 blood analyses annually to detect lead content. The AIDS Bureau provides AIDS testing, preventative education, and coordinates with the substance abuse services to raise public awareness of the relationship between AIDS and substance abuse. Other outreach operations provide blood pressure and cholesterol screening and nutritional information and training. They also immunize children and adults and monitor communicable diseases. Through the Special Supplemental Food Program for Women, Infants and Children, food supplements are made available to mothers and their children.

For FY2004, the Department administered approximately \$692 million. Of this amount, federal funds amounted to \$264 million.

The federal funding to this department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.268	Childhood Immunization Grants

Department of Public Health Findings on Compliance with Rules and Regulations

Finding Number 25: Independent Peer Reviews not Conducted

The Department of Public Health (Department) is not in compliance with the independent peer review requirements of the Block Grants for Prevention and Treatment of Substance Abuse (SAPT).

Under the requirements of 42 USC 300x-53(a); 45 CFR Section 96.136:

The State must provide for independent peer reviews which assess the quality, appropriateness, and efficacy of treatment services provided to individuals. At least 5 percent of the entities providing services in the State shall be reviewed. The entities reviewed shall be representative of the entities providing the services. The State shall ensure that the peer reviewers are independent by ensuring that the peer review does not involve reviewers reviewing their own programs and the peer review is not conducted as part of the licensing or certification process.

Department personnel indicated that they were aware of the requirement but were working under the assumption that this requirement would be phased out in FY2005 and therefore did not make any arrangements to provide for independent peer reviews for FY2004. Without these peer reviews an objective review of the quality, appropriateness and efficacy of the treatment services provided to individuals is missing. (Department of Health and Human Services – Block Grants for Prevention and Treatment of Substance Abuse 93.959)

Recommendation

The Department should enter into an agreement with an independent contractor to provide independent peer reviews to comply with federal law and regulations.

Department Corrective Action Plan

The Center for Substance Abuse Treatment Division of the Substance Abuse and Mental Health Service Administration has informed the Commonwealth that this requirement is likely to be eliminated in the next SAMHSA re-authorization. However, the regulation stands until then and compels States to comply with the requirement. The Department's Bureau of Substance Abuse Services is in the process of planning the independent peer review process utilizing providers/vendors for the current fiscal year. Two options for carrying out this requirement are under consideration. The process will be completed prior to June 30, 2005.

Responsible person: Carolyn Castro-Donlan
Implementation date: Immediate

Department of Public Health Findings not Repeated from Prior Years

1. The Department of Public Health (Department) reported an incorrect amount on the Federal Cash Transaction Report for the quarter ended December 31, 2002. A monthly reconciliation process has been implemented to assure that grant expenditures tie to MMARS. No similar errors were noted in the FY2004 single audit. *(Fiscal Year 2003 Single Audit Finding Number 45)*
2. The Department and the Executive Office of Health and Human Services (EOHHS) did not file the Financial Status Report in time. The Department prepares the report and reviews it with the Director of Accounting at EOHHS prior to submission. All reports reviewed during the FY2004 single audit were filed on a timely basis. *(Fiscal Year 2003 Single Audit Finding 46)*
3. The Department did not issue management decisions on audit findings disclosed at its SAPT subrecipients in a timely manner. All subrecipient audit reports reviewed during the FY2004 single audit had management decisions in a timely manner. *(Fiscal Year 2003 Single Audit Finding 47)*
4. The Department did not fully implement the corrective action plan to ensure that the maximum level of spending under the SAPT Block Grant for the Penal and Correctional Facilities was not exceeded. The Department completed implementing its corrective plan and the maximum level was not exceeded for FY2004. *(Fiscal Year 2003 Single Audit Finding 48)*
5. The Department's State Laboratory did not obtain all of the required medical license numbers from one of its service providers. All service providers reviewed during the FY2004 single audit had appropriate medical license numbers. *(Fiscal Year 2003 Single Audit Finding 49)*

Massachusetts Highway Department Background

The Massachusetts Highway Department (Department), within the Executive Office of Transportation and Construction, plans, constructs and maintains the state highway system, consisting of approximately 9,505 lane miles of highway and 2,900 bridges. To accomplish this, the Department operates approximately 122 maintenance facilities located throughout the state, including administrative offices, garages, and repair and storage buildings. Most of the facilities are small and serve maintenance needs.

During FY2004, the Department administered appropriated funds of approximately \$86 million. In addition, the federal government on a reimbursement basis provided about \$325 Million.

The federal funding to the Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major program was:

<u>CFDA #</u>	<u>Federal Program Description</u>
20.205	Highway Planning and Construction

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 26: Subrecipient Identification and Award Documents Need Improvement

The Massachusetts Highway Department (Department or Mass Highway) needs to improve its system for identifying and communicating to subrecipients, thereby ensuring compliance with the provisions of the Single Audit Act Amendments of 1996.

Section 7502 (f)(2) of the Single Audit Act Amendments of 1996 (Act), states that each pass-through entity shall provide subrecipients with the program name and identifying number as specified in the *Catalog of Federal Domestic Assistance* (CFDA) as well as the federal requirements which govern the use of such awards.

A subrecipient is an entity that expends federal awards received from a pass-through entity, such as the Department, to carry out a federal program. OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the implementing regulations of the Act, indicates certain characteristics that should be considered in identifying subrecipients. For instance, subrecipients assume the responsibility for making programmatic decisions as well as complying with applicable federal requirements. Their performance is measured in terms of meeting the federal program's objectives rather than just providing goods or services to the Department. Vendors are those entities, which provide goods and services to many different purchasers within their normal business operations. They operate in a competitive environment; and/or provide goods or services that are ancillary to the operation of the federal program. Vendors are not subject to Single Audit requirements. Not informing the subrecipients that they are receiving federal awards can affect the type of audit they should obtain.

During a review of some new agreements the Department has with other state and municipal governments, it was noted that in two (2) instances the Department treated these entities as vendors. Additionally, one (1) other older agreement extended during the year with an increase in funds was also treated as a vendor. The funds awarded under these agreements had the characteristics of a pass-through-subrecipient relationship. Only one of the four (4) agreements reviewed contained the program name or identifying number from the CFDA.

While the Department's Bureau of Transportation Planning and Development has made an effort to identify subrecipients, there continues to be some uncertainty in other bureaus as to the type of activity and entity that may qualify as an award to a subrecipient. Payments to other governments and non-profit organizations are often coded as design or construction indicating that the Department is undertaking those activities rather than delegating the responsibility to those entities. In addition, award documents do not inform recipients of all applicable requirements, when the Department plans to seek reimbursement under federal programs. The Department estimated that approximately \$2.7 million or 1 percent of the \$442 million in payments made under the State Roads and Bridges Program were made to other governments and non-profit organizations in FY2004 that could be construed as subrecipients. (*Department of Transportation – Highway Planning and Construction* 20.205; *Fiscal Year 1999; 2003 Single Audit Finding* 50)

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 26: Subrecipient Identification and Award Documents Need Improvement (continued)

Recommendation

All new and amended contracts with other governments and non-profit organizations should be reviewed by one bureau within the Department to ensure all federally-funded agreements or extensions the Department enters into are properly classified as either vendors or subrecipients, as defined by OMB Circular A-133 (Circular). This review would also determine whether all the agreements contained contract language, which includes the program name and identifying number for the various types of awards it passes through, as well as the applicable federal requirements. Additionally, upon execution of the contract, Audit Operations should receive notification of the subrecipient agreement in order to monitor whether any reports that are required under the Circular are received. Finally, the Department should work with the Office of the Comptroller to develop an object code, which will properly identify those subrecipients performing construction activities with pass-through funds, thereby ensuring that these types of agreements are properly identified in the Commonwealth's schedule of expenditures of federal awards.

Department Corrective Action Plan

MassHighway is using standard contract language in all subrecipient agreements, including program name, identifying CFDA number, and audit requirements, with a few exceptions as noted in the audit finding. One agreement that was cited in the audit for not containing the standard contract language for subrecipients was an amendment to an older agreement that did not contain the standard language. It was an omission on the contract manager's part not to include the standard contract language for subrecipients in the amended agreement. Additionally, MassHighway entered into two agreements with a public authority that were not identified as subrecipients. It was the opinion of the contract manager that these agreements were a vendor relationship, not a subrecipient. Planning and Highway Engineering will continue to make the determination as to whether a contract or agreement should be classified as a vendor or subrecipient. The Chief Counsel's office will verify that the contract language is appropriate for a subrecipient before it goes to the Commissioner for signature.

Responsible person: Sue Bristol
Implementation date: November 1, 2004

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 27: Monitoring of Davis-Bacon Compliance Needs Improvement

The Massachusetts Highway Department (Department) paid construction contractors before receiving certified payrolls. In addition, some payroll submissions did not contain a Statement of Compliance.

Title 29 Part 3 *Code of Federal Regulations* establishes the requirements for implementing the Davis-Bacon Act. Part 3.3(b), the *Weekly Statement with Respect to Payment of Wages* (Weekly Statement), indicates that each contractor or subcontractor engaged in the construction of a public work “shall furnish each week a statement [of compliance] with respect to the wages paid each of its employees engaged on work covered...during the preceding weekly payroll period.” Part 3.4 (a), “Submission of Weekly Statements and the Preservation and Inspection of Weekly Payroll Records” requires that the Statement of Compliance be either delivered or mailed to the Department by the contractor or subcontractor, within seven days after the regular payment date of the payroll period. Finally, the Department has a policy not to process and approve payment for work until the certified payrolls are submitted and reviewed.

In four of five invoices tested involving 83 pay weeks, it was noted that 34 contractors had not submitted both the Weekly Statement and the Statement of Compliance to the Department by the time the vendor was paid for that period. While most packages submitted were only a few days to a month late, in three (3) instances the submissions were six (6) months late.

For 14 of the 83 submissions, the package did not contain the Statement of Compliance. Eight (8) of 14 were subsequently provided but three (3) of these had no indication of which weeks were being certified.

Thirty (30) of the 34 contractors noted above that were late in submitting the Weekly Statement and Statement of Compliance related to the 3 prime contractors. Those prime contractors were working on the Central Artery/Tunnel Project under federal-aid project numbers STP-093-507-AC, NH-090-1-232-AC and STP-093-1-454-AC supervised by the Massachusetts Turnpike Authority. Department personnel indicated that it was difficult obtaining certificates on a timely basis. (*Department of Transportation – Highway Planning and Construction 20.205*)

Recommendation

The Department should instruct those overseeing the Central Artery/Tunnel Project at the Massachusetts Turnpike Authority as well the Department’s Resident Engineers to ensure that all contractors and subcontractors submit their certified payrolls within seven days after the regular payment date of the payroll period. Construction quantity estimates should not be prepared for payment until the Department receives certified payrolls for the payment period in question.

Department Corrective Action Plan

Our planned response to this finding is to have the Chief Engineer send out a letter to the Responsible Section heads outlining the importance of compliance with the Davis Bacon Act and attaching a copy of the Department’s SOP #CSD-28-03-1-000 dated 04/10/1998.

Responsible person: Sue Bristol
Implementation date: November 1, 2004

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 28: Inaccurate Recording of Payroll, Accrued Leave and Relocation Expenditures

The Massachusetts Highway Department (Department) did not properly record payroll and accrued vacation, which resulted in an under billing of \$130 to federal programs and an over accrual of vacation time. In another instance, there was an erroneous \$180 posting of relocation expenditures resulting in an under billing to the federal government.

In one (1) in five (5) individuals tested, the distribution of hours as reported by the employee on the timesheet did not agree with time recorded in the accounting system. Upon further investigation, it was noted that two other individuals within the same district office for the identical two pay weeks also had discrepancies between their time sheets and what was recorded in the accounting system.

The discrepancies in hours as noted are as follows:

	<u>Timesheet Hours</u>					<u>Recorded</u>	<u>Net</u>
	<u>Federal</u>	<u>Other</u>				<u>in Acct'g</u>	
	<u>Charges</u>	<u>Regular</u>	<u>Vacation</u>	<u>Personal</u>	<u>Total</u>	<u>System</u>	<u>Difference</u>
Employee #1	59.00	0.00	1.00	8.00	60.00	68.00	-8.00
Employee #2	24.00	0.00	0.00	8.00	24.00	37.06	-13.06
Employee #3	<u>65.50</u>	<u>0.00</u>	<u>6.50</u>	<u>0.00</u>	<u>65.50</u>	<u>72.00</u>	<u>-6.50</u>
	<u>148.50</u>	<u>0.00</u>	<u>7.50</u>	<u>16.00</u>	<u>149.50</u>	<u>177.06</u>	<u>-27.56</u>

The net impact to three (3) federal programs was an under billing of \$130 as follows:

		<u>Actual Dollars</u>				
	<u>Project Number</u>	<u>Federal</u>	<u>Plus: Fringe</u>	<u>Total</u>	<u>As Recorded</u>	<u>Net Under -</u>
		<u>Charges</u>	<u>Benefit Rate</u>			<u>Billing</u>
			<u>at 23%</u>			
Employee #1	STP-003-2-004-X00	\$ 812	\$ 187	\$ 999	\$ 961	\$ 38
Employee #2	BRZ-001-S-038-X00	682	157	839	775	64
Employee #3	IM-190-6-027-000	<u>1,004</u>	<u>231</u>	<u>1,235</u>	<u>1,207</u>	<u>28</u>
Total		<u>\$ 2,498</u>	<u>\$ 575</u>	<u>\$ 3,073</u>	<u>\$ 2,943</u>	<u>\$ 130</u>

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 28: Inaccurate Recording of Payroll, Accrued Leave and Relocation Expenditures (continued)

The total difference in charging vacation time resulted in an \$85 over accrual as follows:

	Vacation Actual <u>Dollars</u>	As <u>Recorded</u>	Net Over- <u>Accrual</u>
Employee #1	\$ 14	\$ 14	\$ -
Employee #2	-	(185)	(185)
Employee #3	<u>100</u>	<u>-</u>	<u>100</u>
Total	<u>\$ 114</u>	<u>\$ (171)</u>	<u>\$ (85)</u>

Department staff indicated that one individual at a district office did not adequately check the data entered. In an unrelated test of relocation payments, it was also noted that one (1) of the five (5) items selected was a reclassification of expenditures from non-participating to participating. The amount of the journal entry posted was \$180 less than the actual expenditures resulting in an under billing to the federal government. Department personnel indicated that it was transposition error made in entering the data. (*Department of Transportation – Highway Planning and Construction 20.205*)

Recommendation

The Department should stress to all individuals entering payroll and other information the need to recheck their entries before posting them and require management review of the information before it is recorded in the accounting system. In addition, the Department needs to ensure that employees' leave records are updated when any corrections are made.

Department Corrective Action Plan

In a memo dated 4/5/01 to district highway directors from the director of administrative services, districts were instructed on procedural safeguards for the recording of payroll. The procedures require time and attendance to be viewed by an employee other than the one who did the data entry of payroll. These procedures were later incorporated into the internal control plan, which is available on the Intranet. The payroll director will send out a reminder to district administrators regarding proper payroll procedures to prevent future errors in posting.

Responsible person: Sue Bristol
Implementation date: November 1, 2004

Massachusetts Highway Department Findings not Repeated from Prior Years

1. The Massachusetts Highway Department (Department) did not deposit the proceeds from the sale of property acquired with federal awards on a timely basis. In addition, there was a delay in transferring credits to the Massachusetts Highway Trust Fund. During the year, Right-of-Way, Fiscal, and Audit Operations strengthened procedures to ensure deposits and credits to the Highway Trust Fund were made on a timely basis. (*Fiscal Year 2003 Single Audit Finding 51*)

Department of Social Services Background

The Department of Social Services (Department) established by Section 1 of Chapter 18B of the Massachusetts General Laws provides services to children and families who are at risk of, or have been victims of, abuse or neglect. The Department administers a comprehensive social services program. These services are administered through 28 area-based offices, and include counseling, protective services, parent aid and other in-home supports to reduce risks to children and provide legal and adoptive services. To ensure the children's well being, when necessary, the Department intervenes through court orders or voluntary agreements to place the child with foster parents or in group homes. During FY2004, approximately 10,000 children were living in foster care or some type of residential setting, either a group home or residential facility. When a child is removed from his or her home, the Department develops a plan to provide, as soon as possible, a long-term stable resolution. The Department also provides shelter and other services for battered women and their children.

For FY2004, the Department administered approximately \$720 million. Federal funds amounted to approximately \$253 million.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards.

The Department's major federal programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.667	Social Services Block Grant
93.658	Foster Care – Title IV-E

Department of Social Services

Findings on Compliance with Rules and Regulations

Finding Number 29: Timeliness of Criminal Offense Record Information (CORI) Checks Needs Improvement

The FY2003 single audit report disclosed that the Department of Social Services (Department) was not performing CORI checks within the required annual timeframes. Our current review disclosed that late CORI checks continue. Sealed or old records hinder the conduct of some CORI checks. The Department did not perform timely re-evaluations of CORI checks for persons providing foster care services under the Title IV-E Foster Care Program in six of the twenty-five cases tested as of June 30, 2004. The six CORI checks were completed 1, 4, 8, 13, 21 and 44 months after they were due to be completed. In addition, the review of the Department's Family Resource and Contracted Care monthly reports of foster care providers disclosed 133 providers with overdue or blank CORI records.

The Department developed a Continuous Quality Improvement Process (CQI) administered in each Department office – area, regional and central offices. This process was designed to assist the new Commissioner and management in assessing the quality of services, identifying best practices, and discussing and implementing new reform. The goals of the Continuous Quality Improvement Teams are to monitor, evaluate, and provide feedback to Department management on the performance of its system of care. A list of indicators to include in the CQI Process and the data sources available to measure the status of the indicators has been made available to senior management throughout the Department. Data on Family Resource Licensing is one of the many review indicators and the tool to measure the status of the Department's licensing of family resources. The Department, with input from management and caseworker personnel, has developed two monthly reports accessible on the DocDirect management reporting system maintained by the Department. One report is the DSS RPT 195 "Family Resource Report" and the second is the DSS RPT 196 "Contracted Care Report". The Area Office family resource workers and the Area Director are responsible for reviewing the Family Resource Report monthly and identifying cases due for annual home re-evaluations or licensing reviews. The report captures the evaluation/assessment history of all foster parents/foster homes by type and date and is updated on the 2nd day of the month by Region/by Area Office from data inputted to FamilyNet by the Area Office caseworkers. This report presents comprehensive data, which includes identifying the resource parent information, number of children in the home and the names of the children placed in the home. In addition, the report includes the CORI check date and outcome of the CORI review. The report delineates for each case the Home Study Date and Recent Approved Reassessment Date.

A review of these monthly reports provided to Area Office personnel disclosed the following:

1. The DSS RPT 195 "Family Resource Report" as of July 19, 2004 had 93 of 5,747 child foster care cases with overdue or blank CORI records involving 66 foster care providers. A review of the CORI check records for the 66 providers disclosed that 11 were blank, 53 were overdue less than 1 year; 1 was overdue more than 1 year and less than 2 years; and 1 was overdue more than 4 years and less than 5 years.
2. The review of DSS RPT 196 "Contracted Foster Care" as of June 2, 2004 disclosed 1,085 CORI records for providers with children in placement, 14 were blank and 53 had overdue CORI checks including 48 less than 1 year overdue; 3 overdue over more than 1 year and less than 2 years; 1 overdue more than 2 years and less than 3 years; and 1 overdue more than 3 years and less than 4 years.

Through the FamilyNet system, family resource workers in department area offices track when CORI re-evaluations are due and are required to electronically submit requests to the central office CORI unit to complete the background check. Our review disclosed that the family resource worker did not always notify the unit when a CORI check was due.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 29: Timeliness of CORI Checks Needs Improvement (continued)

The Department is required to perform criminal background checks on all new hires and an annual re-evaluation of individuals and families seeking or providing services as foster family resources. Federal regulation, 45 CFR 1356.30(a) and (b), requires that the foster family home provider must have satisfactorily met a criminal records check with respect to prospective foster and adoptive parents. Under Massachusetts regulation, CMR 110-7.113, the Department is required to “re-evaluate foster parents and foster homes annually and request criminal record and Central Registry (an in-house database that tracks child abuse and neglect cases) checks for adult household members”. Additionally, the CORI process is required during various stages of an eligible foster care provider’s term with the Department. First, the prospective foster or pre-adoptive family must complete an initial eligibility screening process. This process determines whether the individual who is interested in serving as a family resource and the members of her/his household age fourteen years and older are eligible to apply for consideration as a prospective resource provider. Secondly, the prospective foster or pre-adoptive family must complete a home study evaluation. The home study evaluation is performed to pre-qualify the home and applicant to serve as a family resource. Lastly, annual re-evaluations are performed for current foster or pre-adoptive families to ensure the household continues to be eligible for providing services.

In addition, the CORI department now receives a monthly report of CORI checks due for the month including overdue records, which is monitored by the CORI Director. Our review of the June 2004 report noted two provider homes with two children that had sealed CORI records and five provider homes with six children that had CORI records on old court microfiche records not received by the Department.

The Department must submit a request for the sealed or microfiche court records to evaluate whether the home is a proper placement for the child. Department personnel stated that requests for microfiche records require the resources of the Criminal History Systems Board to search old records and sealed CORI record requests are received from the Commissioner of the Probation Department. In the case of unavailable CORI records or CORI checks that return with a criminal history, the Area Office personnel discuss the circumstances with the individual, document the information and depending on the information received, request a waiver to place the child. The Department’s waiver process approval level is based on the types and disposition of criminal charges as listed in the Department’s Background Records Check Policy with the Area Director approving waivers for dismissed or continued without finding charges, the Regional Directors approving waivers for certain findings and the Commissioner, General Counsel or Deputy Commissioner approving waivers for higher level offenses. Any of these individuals can deny the waiver, terminating further placement review.

110 CMR 18.11 (9) states in part that

“In reviewing a request for an individual to serve as a kinship foster/pre-adoptive parent the Commissioner, Deputy Commissioner of Field Operations and General Counsel must find (a) that the prospective foster/pre-adoptive parent or any household member does not present a risk of harm to the child based on the existence of a criminal conviction; and (b) that the conviction did not involve a crime against or involving a child.

Although a waiver process exists, the Department cannot be assured that the placement of the child is in the child’s best interest if the Department has not confirmed the CORI records and types of criminal charges sealed or on microfiche. The lack of a timely re-evaluations could result in children being placed in an unsafe environment, does not comply with Department policy and may result in ineligible claims for federal reimbursement. In addition, the placement of children in homes with sealed CORI or microfiche records not received could place the child in undue risk. (*Department of Health and Human Services - Title IV-E Foster Care Program 93.658; Fiscal Year 2002; 2003 Single Audit Finding 52*)

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 29: Timeliness of CORI Checks Needs Improvement (continued)

Recommendation

The Department should ensure timely completion of the annual CORI re-evaluations by programming the FamilyNet system to provide an automatic notification to the CORI unit prior to the re-evaluation due date. Department management should reemphasize to personnel the importance of completing timely criminal background checks on foster care provider homes. Finally, management should review the process of placing children in homes with CORI records sealed or not received to ensure the safety of the children.

Department Corrective Action Plan

Because of the reductions in the Department's administrative staffing, driven by the fiscal crisis of the last three years, the Department has lost critical staffing in the foster care program, including all foster care recruitment staff. As a result, the number of foster families has shrunk every one of the last three years. Family resource staff, who are primarily responsible for CORI and re-licensing efforts, have been overwhelmed by the task of finding placements for an increasing number of children with rapidly diminishing foster homes. In this crisis, the work of CORI checks and re-licensing has suffered.

The Department is taking steps to monitor and improve CORI compliance. The background records check (BRC) unit director will continue to work with FamilyNet and Family Resource program staff in the development and implementation of an automated system of BRC requests for foster and adoptive resource applicants and providers. Full implementation of the automated system will be no later than April 30, 2005.

The BRC/CORI Unit Director will continue to produce and distribute monthly, through the Regional offices, area and region specific reports, generated from the DSS RPT 195 Foster Care Compliance Report of foster and adoptive resources having due and overdue BRC Requests or who have no record in FamilyNet of BRC checks having been done. The Central Office Unit for Foster Care Services will distribute monthly, through the Regional offices, provider specific reports, generated from the DSS RPT 196 Contracted Foster Care Compliance Report of contracted resources having due and overdue BRC Requests. The central office unit for foster care services will also coordinate and facilitate the routine review of both of these reports and the ongoing status of the timeliness of CORI checks with family resource staff. Monthly regional meetings will be scheduled to review the information, exchange best practices and discuss and develop next steps to remove any remaining barriers to achieving timeliness.

The BRC Unit and Director will continue to work with the Criminal History Systems Board and other appropriate agencies to obtain microfilm and sealed criminal records as expeditiously as possible and communicate those findings to the requesting offices when received.

Most important to improving our CORI checks, however, is the fact that the Governor and Legislature funded an aggressive foster family recruitment program this year. As foster family placements increase for the first time in three years, family resource staff will be able to give more attention to these important tasks, as the staff time required for immediate placement of children decreases.

Responsible person: Susan Getman
Implementation date: June 30, 2005

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 30: The Process for Home Licensing Needs Improvement

The FY2003 single audit report noted that the Department of Social Services (Department) placed children in homes prior to the Department completing proper licensing requirements. Our current review disclosed that late licensing continues. The Department, in three of the twenty-five Title IV-E cases tested, placed children in homes, but did not complete proper licensing requirements in a timely manner. Two of the cases had foster licensing studies completed 15 and 55 months after their due date. The third case was a kinship placement with an annual home study completed 6 months after the due date.

A review of the Unapproved Homes with Active Placements Report disclosed that as of June 20, 2004, 708 children were placed in foster homes prior to the home being licensed. Of those, 278 children were placed in homes within the 40 days allowed by the regulations, 415 children were placed in unlicensed homes for more than 40 days and less than one year, 14 children were placed in unlicensed homes for 1 to 2 years and 1 child was placed in an unlicensed home for 4 to 5 years.

There are approximately 7,300 children in foster care homes. Department officials explained that in situations involving kinship or child specific placements, the Department is allowed, under emergency provisions, to place the child in the home for 40 working days before a license is issued. They further explained that the above-mentioned report does not take into account these allowed exceptions. However, these exceptions were taken into consideration for purposes of our review and analysis of the data. Department officials stated that the exceptions are due to the fact that these deficiencies are not being identified at the regional and area offices.

The Department developed a Continuous Quality Improvement Process (CQI) administered in each office – area, regional and central offices. This process was designed to assist the new Commissioner and management in assessing the quality of services, identifying best practices and discussing and implementing new reform. The CQI Teams were established to monitor, evaluate, and provide feedback to Department management on the performance of its system of care. Data on the number of children in unapproved homes is one of many indicators being routinely reviewed. One tool to measure the status continues to be the monthly report of Children in Unapproved Homes. Senior management meeting agendas have included the Children in Unapproved Homes Report and the licensing of foster care homes.

To identify homes requiring immediate licensing approval and timely review, the Department implemented two monthly reports available to area office personnel on the DocDirect management reporting system maintained by the Department. One report entitled DSS 171 “Unapproved Homes with Active Placements” which captures all foster homes with active placements and no licensing approval by Region/Area Office. The report presents comprehensive data identifying the consumer name, birth date, consumer ID#, case ID#, case worker name, placement start date, family resource name and resource worker and services provided. The second report is the DSS RPT 195 “Family Resource Report” which captures licensing data by provider including dates of home study, annual re-assessments and foster license end date and the number of children placed in the home by Region/Area office. In addition, Department personnel stated that Area Office personnel utilize a FamilyNet system tickler file, which identifies and ages cases due or overdue for review by the assigned caseworker.

Area managerial staff is responsible to perform license reviews to ensure licensing approvals are completed in compliance with Department policy.

Department of Social Services

Findings on Compliance with Rules and Regulations

Finding Number 30: The Process for Home Licensing Needs Improvement (continued)

Federal regulation, 42 USC 671(a)(10) and 672(c), requires that a provider, whether a foster family home or a child-care institution, must be fully licensed by the proper State Foster Care licensing authority. In Massachusetts, the licensing authority for foster family homes is the Department. Federal regulation, 45 CFR 1356.30(f), further requires that the licensing file for a child-care institution must contain documentation which verifies that safety considerations with respect to the staff of the institution have been addressed. The licensing process is not only to ensure that the facility is safe for child placement, but also that the staff that work at the facility have had background checks.

The lack of proper licensing could result in children being placed in an unsafe environment, does not comply with Department policy and results in ineligible claims for federal reimbursement. (*Department of Health and Human Services -Title IV-E Foster Care Program 93.658; Fiscal Year 2002; 2003 Single Audit Finding 53*)

Recommendation

The Department should identify foster care homes that require immediate licensing approvals and develop a process to ensure the homes identified as unlicensed obtain a timely review. Additionally, a process for central monitoring and oversight should be implemented to address deficiencies that are not being identified at the regional offices. As part of the CQI process, the Department should review procedures and recognize the safety hazards that exist by placing children in unlicensed homes. Lastly, the Department should maximize federally reimbursable expenditures by ensuring the timely performance of licensing reviews that would have been otherwise non-reimbursable.

Department Corrective Action Plan

As a result of the reductions in the Department's administrative staffing driven by the fiscal crisis of the last three years, the Department has lost critical staffing in the foster care program, including all foster care recruitment staff. As a result, the number of foster families has shrunk every one of the last three years. Family resource staff, who are primarily responsible for CORI and re-licensing efforts, have been overwhelmed by the task of finding placements for an increasing number of children with rapidly diminishing foster homes. In this crisis, the work of CORI checks and re-licensing has suffered.

The Department has already started to rebuild the staffing capacity needed to appropriately oversee and manage the foster care program. In the rebuilding process, the Central Office Foster Care Services Unit is now staffed with a full-time director in addition to a full-time foster care specialist, the latter having a focus on CQI for family resource practice. In addition, another two managers will be added to the Central Office Foster Care Services Unit staffing plan this calendar year, each assuming responsibility for routine monitoring of family resource compliance – CORI, licensing, etc. – for three regions. These managers will also provide technical assistance and support to field staff on improvements to family resource practice. There are already routine monthly meetings between central office, regional, and area family resource staff where the compliance reports are reviewed and discussed and where the family resource experts can share best practices. These routine meetings will continue.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 30: The Process for Home Licensing Needs Improvement (continued)

Department Corrective Action Plan (continued)

This group must also be attentive to identifying and prioritizing recommended improvements to the family resource functionality in FamilyNet. As the 'system of record', FamilyNet data and its reports will always be the source for testing compliance. The managers in the Central Office Foster Care Services Unit, along with IT FamilyNet staff, must continue to enhance the family resource functionality to ease navigation and minimize opportunities to create conflicting or erroneous data. Enhancements to FamilyNet will continue to be developed, with the goal of improving and increasing family resource documentation in the system. The Department is currently piloting in various offices across the Commonwealth a limited mobile technology project. Lessons from this pilot will inform any decision to provide mobile technology for family resource staff.

Most important to improving our CORI checks and re-licensing in foster care, however, is the fact that the Governor and Legislature funded an aggressive foster family recruitment program this year. As foster family placements increase for the first time in three years, family resource staff will be able to give more attention to these important tasks, as the staff time required for immediate placement of children decreases.

Responsible person: Mary Gambon
Implementation date: June 30, 2005

Department of Social Services Findings on Reportable Conditions

Finding Number 31: Controls Over FamilyNet and Home Licensing Report Data Need Improvement

The FY2003 single audit report noted that the integrity of the data in the Department of Social Services (Department) FamilyNet system needed improvements and that there were overdue licensing re-assessments for a number of homes where children had been placed. Our current review of 5,747 foster care records in FamilyNet, a local area network implemented by the Department in February 1998, was performed to determine the Department's compliance with licensing, re-assessments, and criminal background checks. The review of the monthly Department's Family Resource Report, compiled from FamilyNet data, issued to area agency personnel to monitor foster care provider licensing and criminal background checks has a 52% error rate.

These errors include missing date information, inaccurate dates input to the FamilyNet system and overdue annual re-assessments, including criminal background checks.

An analysis of the 5,747 files in the FamilyNet system, as of July 19, 2004, noted the following:

- 853 files with the "home study" dates blank, which represents the original approval for child placement;
- 1,337 files with the "recent re-assessment" dates blank, representing the last re-assessment date;
- 92 files where the dates were incorrectly input;
- 712 files that indicated that the annual re-assessments were overdue -- 524 overdue less than a year, 134 overdue more than 1 year and less than 2 years, 24 overdue over 2 years and less than 3 years, 10 overdue 3 years and less than 4 years, 12 overdue more than 4 years and less than 5 years and 8 overdue more than 5 years and less than 6 years.

This results in a 52% error rate in the files. Additionally, 1,414 files dated after July 19, 2003 were not included in the analysis because these were within the one year that is allowed for the review. Department Area Office personnel input to FamilyNet case management data, including the resource provider name, the initial licensing date and most recent assessment date, number of authorized children, and the names of children placed in the resource provider home. From the FamilyNet data, the Department produces monthly reports entitled "Family Resource Report" and "Unapproved Homes with Active Placements" provided on the DSS DocDirect system to personnel responsible to monitor and conduct foster care providers licensing and criminal background review checks.

Department personnel stated that the monthly reports were a tool for determining licensing re-assessment due dates and Area Office personnel also rely on FamilyNet individual tickler files for due and overdue assessments and the hard copy case files to determine license assessment dates. However, when asked to produce the other methods utilized to determine re-assessment dates for testing purposes, Department officials stated that FamilyNet is the system of record. There is no central office internal audit review of information entered into FamilyNet.

Further, Department officials have stated that although the reports indicate that the re-assessments for continued licensing are overdue, the regulations allow for licenses to remain in effect until the re-assessment is performed. While we concur that the regulations do stipulate this, we do not believe that the intent of the legislation was for homes to remain licensed for an indeterminate amount of time before being assessed by the Department, as this poses a risk of children remaining in homes that may be unsafe.

Department of Social Services Findings on Reportable Conditions

Finding Number 31: Controls Over FamilyNet and Home Licensing Report Data Need Improvement (continued)

Family resource personnel recently identified other FamilyNet problems. These include the following: 1) Children in their six-month placement probation period whose required monthly visit information is entered in FamilyNet, do not appear in the bi-monthly visit data field as visited. 2) Home Licenses and Assessments that are completed and approved, with condition, do not appear in the FamilyNet reports as completed. Department officials further believe that the questions about the data in FamilyNet, as well as late CORI checks and licensing re-assessments, are more of a data entry issue than a child safety issue.

The Code of Massachusetts Regulations requires the following:
110 CMR 7.113, states,

The Department shall annually reassess foster care parents and homes whether unrestricted, kinship or child specific including interviews, case file reviews and criminal background checks and after completing the reassessment issue within ten working days a decision on the re-approval terms and conditions.

110 CMR 18.08 (2)(b) CORI Investigations states,

(b) The DSS shall conduct a CORI Investigation of any household member age fourteen or older during the initial homestudy/ evaluation of the foster/ pre-adoptive home and during the annual reassessment of the foster/ pre-adoptive home.

Additionally, CFR, Title 45, Part 1356, Section 1356.30(a) states,

(a) Unless an election provided for in paragraph (d) of this section is made, the State must provide documentation that criminal records checks have been conducted with respect to prospective foster and adoptive parents.

Blank date information and data integrity problems in FamilyNet and monthly reports could result in children being placed in unsafe homes that lack timely initial licensing and annual re-assessments. It further results in noncompliance with state and federal laws, rules and regulations and Department policy. (*Department of Health and Human Services -Title IV-E Foster Care Program 93.658; Fiscal Year 2003 Single Audit Finding 54*)

Recommendation

The Department should develop a central office oversight control process, including periodic reviews of monthly reports and case information entered into the FamilyNet system, to ensure that information related to foster care cases and licenses is properly recorded and current. With regard to the timeliness and accuracy of the data input into FamilyNet, the Department needs to consider ways to assist and facilitate the input of the data by the social workers. Examples include assigning others (e.g. clerical staff) to input the data and using items such as Dictaphones or Blackberrys in order to make the most effective use of the FamilyNet system capabilities. These activities would provide a centralized location for all significant data, easily accessible to workers, reviewers, and management.

In addition, the Department should develop a summary exception report to facilitate identifying overdue licensing and case re-assessment dates by region/area office for review. Department personnel should complete a reconciliation of information in FamilyNet and the manual case files. They should then perform any overdue re-assessments, including CORI checks, to ensure that children are being placed and maintained in safe home environments. Further, the Department should stress the importance of updating the FamilyNet system with timely and accurate information in order to maximize its benefits and utilize the system for its intended purpose. Lastly, the Department should review and revise applicable regulations to ensure that licensing re-assessments are required and performed in a stated timeframe in order for a home to remain licensed.

Department of Social Services Findings on Reportable Conditions

Finding Number 31: Controls Over FamilyNet and Home Licensing Report Data Need Improvement (continued)

Department Corrective Action Plan

A reasonable estimate is that approximately 95% of the Department's business is recorded in and processed through FamilyNet. Most of the information is successfully entered in FamilyNet in a timely and accurate manner. The data deficiencies discussed in this finding simply recapitulate Finding Number 30, documenting the weaknesses that have developed in our foster family licensing. It is apparent, however, that the Department must continue to enhance and improve the family resource functionality in particular as it relates to home licensing. In the past year, family resource and FamilyNet staff worked together to develop a significantly changed and improved management report for tracking all family resources. After using this revised report for approximately six months, it is evident that additional refinements to this report are needed. It appears that other tools may need to be developed to simplify the monitoring of timely home licensing activities. Appropriate Department staff will routinely meet to discuss and develop alternative management tools that will look specifically at home licensing. So too, this group will review current navigation through the family resource windows, recommending improvements and simplifications where appropriate. This group must also review the business rules related to home licensing, recommending and prioritizing changes to improve the integrity of the data.

Recommendations will be finalized by January 31st and a rollout plan of the recommended changes will be completed by March 31st.

Responsible person: Mary Gambon
Implementation date: December 2005

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 32: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings

The Department of Social Services (Department) is not in compliance with the requirements for open hearings regarding appeals of certain decisions. A review of fair hearing requests received from 1995 to 2004 (as of August 17, 2004) disclosed 4,817 open hearing requests. Of these, 3,637 have not been scheduled for a fair hearing by the Legal Department within the 90 calendar days required by the Department regulations, 887 have been scheduled for a hearing, 19 have data errors, and 274 have not been scheduled but are within the 90 days scheduling requirement.

The fair hearing process allows clients including biological, foster, and adoptive parents and children receiving services, the opportunity to appeal certain matters and to present other matters to the Department through a grievance process. The Fair Hearing Process allows clients dissatisfied with certain actions or inactions of the Department or a provider under contract with the Department, to present his or her position in an informal hearing and to receive a just and fair decision by an impartial hearing officer based on the facts and applicable regulations. The Code of Massachusetts Regulation (CMR) 110 requires the Department to employ and train impartial fair hearing officers whose sole duty shall be to conduct fair hearings statewide. An individual shall file a written request for a fair hearing with the Department's hearing office within 30 calendar days from a decision.

As required by 110 CMR 10:05, a fair hearing shall address (1) whether the Department's or provider's decision was not in conformity with its policies and/or regulations and resulted in substantial prejudice to the aggrieved party; (2) whether the Department's or provider's procedural actions were not in conformity with its policies, regulations or procedures and resulted in substantial prejudice to the aggrieved party, or (3) if there is no applicable policy, regulation or procedure, whether the Department or provider acted without a reasonable basis or in an unreasonable manner which resulted in substantial prejudice to the aggrieved party.

The review of the FamilyNet open fair hearings report as of September 2, 2004 noted:

<u>Calendar Year</u>	<u>Total</u>	<u>Open Hearing</u>	<u>Hearings</u>
	<u>Requested</u>		<u>Not</u>
	<u>Hearings</u>	<u>Requests</u>	<u>Scheduled</u>
2004 (As of 8/17/04)	1,370	1,086	753 ⁽¹⁾
2003	2,038	1,768	1,685
2002	1,957	1,191	1,008
2001	1,900	361	107
2000	1,949	223	49
<u>1995-1999</u>	<u>7,799</u>	<u>188</u>	<u>35</u>
<u>Total</u>	<u>17,013</u>	<u>4,817</u>	<u>3,637</u>

⁽¹⁾274 requests received after June 2, 2004 were not included in the hearings not scheduled total since requests were received within the 90 days allowed to schedule the hearing.

In addition, we noted 19 requests for an open fair hearing had data errors, including eight with the scheduled hearing dates the same as the hearing request received date and 11 with the scheduled hearing dates prior to the hearing request date.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 32: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings (continued)

Fair Hearings are conducted for allowable grounds of appeal including:

1. Applicants may appeal the Department's failure to follow 110 CMR, the computation or imposition of fees for services, or any action or inaction of the Department to place a child across state lines;
2. Biological parents may appeal when a goal determination at a Foster Care review changes;
3. A recipient of services from the Department may appeal a) the suspension, reduction or termination of services, b) the fee calculation if the recipient can show an incorrectly calculated fee, or c) the failure of the Department to follow 110 CMR which resulted in substantial prejudice to the recipient;
4. Foster parents have the right to appeal decisions of the Department as stated in 110CMR 10:06, including licensing decisions, foster care child removals, decisions to close foster home etc.;
5. Pre-adoptive and adoptive parents may appeal the denial of an applicant to become a pre-adoptive placement, withdrawal of Department sponsorship of a placement or removal of a child from placement;
6. Adolescents and children through an attorney or representative may appeal changes in goal determinations;
7. Any parent or caretaker of a child has a right to appeal a Department's support of a finding of abuse or neglect of a child.

Code of Massachusetts Regulations 110 section 10:10 states,

The hearing shall be scheduled to be held within 90 calendar days from receipt of a request for a Fair Hearing.

Department personnel stated that the reduction of hearing officers in recent years from five to three due to early retirement and budget cuts has resulted in a backlog of unscheduled hearings. As a result, the Department is not meeting the legal requirements of conducting an appeals process for individuals involved with the Department services. (*Department of Health and Human Services – Title IVE Foster Care Program 93.658*)

Recommendation

The Department should implement procedures to comply with the legal mandates, including seeking additional resources to conduct the required hearings and complete the appeals and grievance process for requesting individuals in accordance with agency regulations.

Department Corrective Action Plan

The inability of the Department to schedule fair hearings within the time required by its regulations is a direct result of a lack of sufficient staffing resources in the fair hearing unit, because of reductions in our administrative account during the last three years of fiscal crisis. The Department is actively working with the administration to request additional staff to more adequately service the number of fair hearing requests filed each year. If that staff is obtained, the Department will first focus on resolving the oldest cases still pending. Even without additional staff, the Department will refocus existing resources to resolve all requests received by the Department prior to the end of calendar year 2001. The Department will utilize a monthly doc direct report of all active cases to check for and correct data errors associated with request and scheduling dates.

Responsible person: Virginia Peel, General Counsel
Implementation date: December 2005

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 33: Improvements Needed for the Documentation of Judicial Determinations

The Department of Social Services (Department) did not meet federal legal requirements for documentation of judicial determinations in three of 25 cases selected for Title IV-E review. At the time these cases were to be submitted for federal reimbursement, Department personnel could not locate the records in the case files resulting in the cases being ineligible for federal reimbursement. For two of them, the federal reimbursement was adjusted downward in the next quarterly claim period and the third will be adjusted later.

Federal regulation, 45 CFR 1356.21(d), require the documentation of judicial determinations as follows:

The judicial determinations regarding, contrary to the welfare, reasonable efforts to prevent removal, and reasonable efforts to finalize the permanency plan in effect, including judicial determinations that reasonable efforts are not required, must be explicitly documented and must be made on a case-by-case basis and so stated in the court order.

One case, submitted for federal reimbursement and not subsequently adjusted, did not meet Title IV-E legal requirements documenting a 60-day reasonable effort to prevent removal of a judicial determination on file at the Department. The second case submitted on the March 2004 claims roster and adjusted on the June 2004 claims roster lacked a judicial determination of reasonable efforts to finalize a permanency judicial plan within 12 months. The third case submitted on the December 2003 claims roster was adjusted on the March 2004 claims roster. The submission lacked an initial (the first court order allowing the removal of the child from the home) “contrary to the welfare” home removal determination and a 60 day reasonable efforts to prevent removal of a determination on file. The Department is required to obtain and maintain on file a judicial determination of their reasonable efforts to prevent removal of a child within 60 days of the child’s removal from the home.

The IV-E eligibility consultant hired by the Department processes IV-E claims quarterly through FamilyNet and completes IV-E case eligibility redeterminations usually every six months. This results in claims adjustments for prior claims, which were subsequently determined to be ineligible. Legal department personnel at regional offices are required to obtain and maintain court determination records.

45 CFR section 1356.21 states in part:

(c) A child's removal from the home must have been the result of a judicial determination (unless the child was removed pursuant to a voluntary placement agreement) to the effect that continuation of residence in the home would be contrary to the welfare, or that placement would be in the best interest, of the child. The contrary to the welfare determination must be made in the first court ruling that sanctions (even temporarily) the removal of a child from home. If the determination regarding contrary to the welfare is not made in the first court ruling pertaining to removal from the home, the child is not eligible for title IV-E foster care maintenance payments for the duration of that stay in foster care.

45 CFR section 1356.21(b)(1) states in part:

(i) When a child is removed from his/her home, the judicial determination as to whether reasonable efforts were made, or were not required to prevent the removal must be made no later than 60 days from the date the child is removed from the home.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 33: Improvements Needed for the Documentation of Judicial Determinations (continued)

45 CFR section 1356.21(b)(2) states:

(i) The State agency must obtain a judicial determination that it has made reasonable efforts to finalize the permanency plan that is in effect (whether the plan is reunification, adoption, legal guardianship, placement with a fit and willing relative, or placement in another planned permanent living arrangement) within twelve months of the date the child is considered to have entered foster care and at least once every twelve months thereafter while the child is in foster care.

Department personnel could not locate the judicial determination documentation. As a result, it is not in compliance with Title IV-E legal requirements and is processing claims for ineligible expenses. (*Department of Health and Human Services – Title IVE Foster Care Program 93.658*)

Recommendation

The Department should maximize federally reimbursable expenditures by ensuring the timely performance of legal requirements that comply with federal regulations. In addition, the Department should ensure that all legal determinations are obtained and maintained in the case files.

Department Corrective Action Plan

The Department is in the process of documenting the process and recommended timelines for securing and filing the required legal documents associated with determining and redetermining Title IVE eligibility. The process and timelines will acknowledge the Title IVE regulations. In addition, the department will be developing management reporting tools to monitor the various eligibility requirements with an overall goal of maximizing Title IVE federal reimbursements, inclusive of all eligibility factors.

Responsible person: Ellen Finnegan
Implementation date: June 2005

Executive Office of Health and Human Services/Office of Medicaid Background

The Executive Office of Health and Human Services (Executive Office) is the designated single state agency responsible for administering the program of medical assistance. The Executive Office assumed the single state agency responsibilities in FY2004 pursuant to a legislative reorganization and designation of the Executive Office as the single state agency. Prior to that date, and beginning in fiscal year 1994, the Division of Medical Assistance (Division) was the designated single state agency. As the current single state agency, the Executive Office administers the medical assistance program primarily through its Office of Medicaid (Office).

During FY2004, the Office administered approximately \$8.9 billion in carrying out its program. Federal funds amounted to approximately \$4.4 billion.

The federal funding to the Office is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Office's major programs were:

<u>CFDA#</u>	<u>Federal Program Description</u>
93.778	Medical Assistance Program
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.767	State Children's Insurance Plan

Executive Office of Health and Human Services / Department of Mental Retardation Findings on Compliance with Rules and Regulations

Finding Number 34: Untimely Filing of Plan of Care and Level of Care Documents

One out of 23 selections tested for waiver eligibility under the Medicaid waiver program administered for the Executive Office of Health and Human Services (Executive Office) by the Department of Mental Retardation (Department or DMR) did not have current Plan of Care (POC) and Level of Care (LOC) documents on file as of the end of the fiscal year (June 30). The last POC and LOC documents were filed on January 8, 2003 and should have been updated by January 8, 2004.

Federal regulation, 42 CFR 441.302, states that:

Unless the Medicaid agency provides the following satisfactory assurances to HCEA, HCEA will not grant a waiver under this subpart and may terminate a waiver already granted.... An evaluation of the need for the level of care provided in a hospital, a NF, or an ICF/MR when there is a reasonable indication that a recipient might need the services in the near future (that is, a month or less) unless he or she receives home or community-based services.

In response to this finding in the 2003 audit, the Department stated that it had completed its new LOC assessment process and begun implementation of the revised process for assuring that relevant documentation is complete and current, and for identifying those that are about to expire. There was some uncertainty as to what happened in this particular case. The risk that the Department incurs by not filing these documents on a timely basis is that benefits could be provided to persons who are potentially ineligible to receive benefits at the time of service. (*Department of Health and Human Services – Medical Assistance Program 93.778; Fiscal Year 2002; 2003 Single Audit Finding 33*)

Recommendation

The Department needs to continue to improve its eligibility procedures to ensure that all the necessary and required documentation is complete and current, including a control measure to identify, in advance, those cases whose documentation is about to expire. The Executive Office, as the single state agency for Medicaid, needs to monitor more closely the Department's operation of the waiver program.

Department Corrective Action Plan

An additional DMR software application was designed during 2000 and 2001 to track all waiver participants and their waiver eligibility criteria and documentation. In combination with the Electronic Individual Service Plan application and the POC application, this waiver-tracking database completes the triad that allows DMR to track all aspects of an individual's waiver status. Although there was an extended period of development for each of these applications, all are now fully functional. In addition, during the last year a DMR staff person was assigned the responsibility of Waiver Coordinator to oversee waiver eligibility and documentation.

Although the POC and LOC documents were timely prepared, DMR did not maintain a copy at the DMR Central Office. DMR has provided assurances to the Executive Office that they will strengthen their documentation and tracking procedures to ensure all copies of POC and LOC documents are kept on file at the Central Office location.

Responsible person: Annette O'Shea, Executive Office of Health and Human Services/Office of Medicaid

Implementation date: October 30, 2004

Executive Office of Health and Human Services / Department of Mental Retardation Findings on Compliance with Rules and Regulations

Finding Number 35: No Communication of Feasible Alternatives

One out of 23 selections tested for waiver eligibility under the Medicaid waiver program administered for the Executive Office of Health and Human Services (Executive Office) by the Department of Mental Retardation (Department or DMR) did not document that the recipient was notified of their feasible alternatives.

Federal regulation, 42 CFR.302 (d), states that recipient must be informed of any feasible alternatives available under the waiver and given the choice of either institutional or home and community-based services.

The risk that the Department incurs by not documenting that this step was taken or by not taking this step at all is that the Executive Office is not in full compliance with federal regulations and recipients may not receive the benefits to which they are entitled. (*Department of Health and Human Services – Medical Assistance Program 93.778*)

Recommendation

The Department needs to continue to improve its client file management procedures to ensure that all the necessary and required documentation is complete and current, including a control measure to identify, in advance, those cases whose documentation is about to expire or is missing. The Executive Office, as the single state agency for Medicaid, needs to more closely monitor the Department's operation of the waiver program.

Department Corrective Action Plan

The Executive Office continues to ensure that the Department improves its client file management procedures to implement a system whereby all deficient or missing information is appropriately tracked until the recipient's file is complete and accurate. A request of the Department for a formal review and a report will be requested for the period ending December 31, 2004.

In this case, the recipient was offered feasible alternatives, but the guardian failed or refused to sign the form that would document that the recipient was notified of feasible alternatives. DMR operates its waiver recognizing the importance of communicating with clients and their guardians choices in the settings of their care, community or institutional. The Executive Office will work with DMR to ensure that their file management system includes documentation of feasible alternatives.

Responsible person: Annette O'Shea, Executive Office of Health and Human Services/
Office of Medicaid
Implementation date: December 31, 2004

Executive Office of Health and Human Services Findings on Compliance with Rules and Regulations

Finding Number 36: Draw Downs of Federal Cash Need Better Monitoring

The Executive Office of Health and Human Services (Executive Office) did not adequately follow and monitor the methodology used to determine the amount of federal cash to draw down. As a result, for four months of FY2004, the Executive Office drew down more federal cash than it should have and, accordingly, will have to pay interest to the federal government. More federal cash than needed was drawn because the estimates made of the amount of non-federal collection revenue (i.e. rebates, refund, etc.) used to offset the draw down of federal cash were significantly less than the actual collection.

Since July 1996, the Executive Office entered into an agreement with the Office of the Comptroller (OSC), the department responsible for the Commonwealth's agreement with the US Treasury to implement and comply with the Cash Management Improvement Act of 1990, to create an interest neutral method of drawing down federal funds. Under this agreement with OSC, a methodology was developed that uses historical and current information to estimate how much money the Executive Office will receive in a given month through collections (i.e. refunds, drug rebates, etc.) and reduce the monthly draw down by the amount of the estimated collections. At the end of each month, a reconciliation of the actual collections and the estimate is made and the next day's draw down is adjusted appropriately.

For the first eight months of FY2004 (July – February), the cash draw downs were made according to the agreement and the Executive Office's methodology was adequately used. However, a turnover in personnel occurred and a new person assumed the responsibility for estimating the amount of collections by which to offset the draw downs. During the next four months, the amount of drug rebate money actually received was significantly higher than anticipated. The refund of a duplicate payment of approximately \$24 million was also received. Neither of these amounts was used to reduce the draw down; thereby making the draw interest generating instead of interest neutral. The difference between the average actual monthly collections and the estimate used by the Executive Office to offset the draw downs for the first eight months was only about \$46,000; for the entire 12 month period the difference was about \$251,000. As a result, the Executive Office will have to pay interest to the federal government. (*Department of Health and Human Services – Medical Assistance Program 93.778; State Children's Insurance Program 93.767*)

Recommendation

The Executive Office needs to evaluate the methodology that is being used to estimate monthly collections and determine whether this methodology needs to be adjusted. It also needs to ensure that the methodology is adequately followed. The Executive Office should work with the OSC to determine the interest payable to the federal government.

Executive Office of Health and Human Services Findings on Compliance with Rules and Regulations

Finding Number 36: Draw downs of Federal Cash Need Better Monitoring (continued)

Department Corrective Action Plan

The Executive Office (EOHHS) followed the draw down methodology agreed upon with OSC and the US Treasury. EOHHS requests that the finding be limited only to “Estimates of Cash Collections Need Improvement”. The agreement between the OSC and the US Treasury states that no state or federal interest liability is incurred when the agreed upon funding technique is properly applied.

During FY2004, EOHHS followed procedures in the agreement with OSC, which is based on the Commonwealth’s CMIA agreement with the US Treasury, to create an interest neutral method of drawing down federal funds. In the last four months of FY2004, when actual collections exceeded projections, EOHHS continued to follow the same methodology that was agreed upon with the OSC.

EOHHS agrees that estimates of actual collections could be more accurate and is taking steps to revise the methodology used to estimate monthly collections. EOHHS drew down approximately \$4.4 billion of Title XIX and Title XXI funds in FY2004, or approximately \$366.6 million per month. We are improving our policies and procedures over estimates of cash collections and expect to be completed by December 31, 2004. The revision will include monitoring of collections during each month and a revision of projections by the accounting unit on the 15th of each month, if actual collections are substantially different from projections. The federal revenue unit will also do a preliminary reconciliation between funds drawn down based on estimates and actual collections on the first day of the following month and then do another reconciliation after all collections for the month are received, approximately two weeks after the end of the month. In addition, projections will incorporate more current information related to invoices rather than relying only on historical data.

In line with the methodology used by federal revenue unit, EOHHS would not have noted that the draw down during each month exceeded expenditures, until the reconciliation at the end of each month. EOHHS agrees that for the last four months of FY2004, monthly estimates of average refunds have been much different from actual refunds. This might result in a larger draw down offset, but this is not the result of the federal revenue unit incorrectly following the draw down and revenue neutral methodology.

The federal revenue unit uses a methodology agreed upon with the OSC for determining the average dollar amount of federal funds to be offset by refunds for each draw down. The federal revenue unit reduces each draw down by the estimated average refund dollar amount. An adjustment is made to reconcile the difference between the average refunds and actual refunds at the end of the month after all collections are received. The federal revenue unit receives an adjusted estimated average refund amount every month from the accounting unit. The agreement between the OSC and the US Treasury states that no state or federal interest liability is incurred when this funding technique is properly applied. According to the records maintained by the federal revenue unit, the federal revenue unit followed the procedure during each month in FY2004.

In regard to an overpayment of approximately \$24 million dollars, the internal systems identified this immediately and it was returned in March 2004. The duplicate payment was a result of a systems error, which had been promptly identified and corrected. The federal revenue unit immediately adjusted the draw down as soon as the overpayment was returned. A written explanation was given to the auditors.

Responsible person: Josiah Emuoyibo/Janice Axelrod
Implementation date: December 31, 2004

Executive Office of Health and Human Services Findings on Reportable Conditions

Finding Number 37: The Recording of Aged Accounts Receivable Needs to be Reviewed on a Timelier Basis

As indicated last year, the Executive Office of Health and Human Services (Executive Office) needed to implement a process to monitor aged accounts receivable balances so that timely corrective action could be taken where appropriate. This year's testing noted similar issues. Three of ten accounts receivable selections tested are not likely to be collected and should be written-off. The ten selections represent receivables due to the Executive Office from the estates and accident liens of individuals who received The Executive Office/Family Assistance benefits. An aid category is assigned to each individual within the eligibility system (MA-21) or MMIS, passed through BEACON, the Department of Transitional Assistance eligibility system. Each month the receivable amounts due are posted to Massachusetts Management Accounting and Reporting System (MMARS) based on the information uploaded from MA-21, the Executive Office's delegated accounts receivable system, or from contracted recovery service vendors.

All of these cases are classified in the greater than 90 days aged receivables category and discussion with appropriate personnel at the Executive Office revealed that although the Executive Office is entitled to the receivable amounts tested, the likelihood of collecting the amount in three of the cases (two accident recovery and one estate recovery) is remote. Therefore, the receivable overstatement for these three cases is \$262,964.

As stated above, all of these selections are classified in the greater than 90 days aged receivables category. The age of these invalid receivable balances and the number of errors found in the sample (last year's audit disclosed three similar issues out of six MMARS selections tested) indicates that the Executive Office is not performing a timely review of these amounts. There is a significant risk of overstatement of the receivable balance. In the preceding four years, we reported that the Executive Office needed to improve its tracking and recording of receivables, uncollectibles, and write-offs and recommended that it work with its contractors to obtain aging reports of its receivables and the individual claims that were deemed uncollectible and those to be written-off. Executive Office personnel explained that they were working with the Comptroller's Office to develop policies and procedures that will result in more accurate tracking and recording of receivables, uncollectibles, and write-offs.

Additionally, this year's testing of receivable transactions, as also indicated last year, noted that there was not proper segregation of duties in the processing of receivables transactions (increases, decreases, cash receipts). One person prepared, posted, and approved all of the receivable transactions tested. (*Department of Health and Human Services – Medical Assistance Program 93.778; Fiscal Year 2000; 2003 Single Audit Finding 31*)

Recommendation

The Executive Office needs to implement a process of monitoring aged accounts receivable balances so that timely corrective action can be taken, where appropriate. In addition, the Executive Office should apply the appropriate level of segregation of duties to avoid the same employee preparing, posting, and approving receivable transactions.

Executive Office of Health and Human Services Findings on Reportable Conditions

Finding Number 37: The Recording of Aged Accounts Receivable Needs to be Reviewed on a Timelier Basis (continued)

Department Corrective Action Plan

The Executive Office is implementing a corrective action plan to review its accounts receivable on a timely basis.

1. The accounting unit will work with the program unit and contractors, with guidance from the Office of Medicaid Internal Control and Audits Unit, to develop accounts receivable policies and procedures.
2. The program unit and the contractors will be required to submit the billing and accounts receivable reports on a monthly basis.
3. Accounts receivables will be reviewed for accuracy on a monthly basis and adjustments will be made if necessary.
4. The accounting unit will work with the program unit and the contractors to make sure that cases are reviewed to ascertain that the accounts receivables stated are in fact the correct accounts receivables.
5. The Accounting Unit will send a mid-year accounts receivable report of all its open summary receivables to the Office of the Comptroller for review.
6. Premium billing receivables will be reviewed on a quarterly basis.
7. Requests for write-off of premium billing receivables that are over one year old will be done on a quarterly basis.

Below is a tentative FY05 schedule for submitting requests for write-off of aged open premium receivables greater than one year old:

<u>Period</u>	<u>Date of submission</u>
Through QE 09/30/2003	December 1, 2004
Through QE 12/31/2004	March 1, 2005
Through QE 03/31/2004	June 1, 2005
Through QE 06/30/2004	September 1, 2005

Responsible person: Alice Kyeba, The Executive Office Accounting Unit
Implementation date: December 1, 2004

Executive Office of Health and Human Services Findings on Reportable Conditions

Finding Number 38: Procedures Used in the Preparation of the Information for GAAP Reporting Purposes Need to be Documented

The Executive Office of Health and Human Services (Executive Office) needs to document the procedures it uses to prepare the generally accepted accounting principles (GAAP) Package required to be submitted annually to the Office of the Comptroller (OSC), as well as the actuarially developed year-end Medicaid accrual.

Each year the OSC requires each of the Commonwealth departments to submit a GAAP Package because throughout the year the Commonwealth accounts for its financial operations on the statutory basis of accounting as defined by Massachusetts law (budgetary basis). For its Comprehensive Annual Financial Report (CAFR), the Commonwealth reports based on GAAP as defined for governments by the Governmental Accounting Standards Board, often referred to as the accrual basis. The CAFR includes information about the extent of certain future expenditure commitments that have been made in the current and prior years and any revenue earned but not yet collected to meet them.

The GAAP Package for FY2004 was to be submitted to OSC by August 6, 2004. The Executive Office received a two week extension from OSC from the August 6th date. Several versions of the Package were submitted to the auditors and OSC. Each of the versions differed significantly from the previous versions; there was great difficulty reconciling the information in the package to the MMARS reports or other supporting information. Furthermore, in some instances, the individuals who signed-off on the Package's schedules as preparers stated that they had not prepared the reports submitted to the auditors. It was nearly two months after the due date that the Package was considered reasonable and adequate.

The GAAP Medicaid accrual is a calculation by the Executive Office using pay lag and service models of the Medicaid services rendered prior to June 30 (the Commonwealth's year-end) that were not paid for by June 30. Once the Executive Office performs the calculation, it is reviewed and analyzed by the independent audit firm's actuary. The actuary's review disclosed errors that have caused a delay in the calculation of the accrual. The amount of Medicaid payments not made by June 30 for services rendered prior to that date is the largest accrual in the Commonwealth's GAAP financial statements.

Discussions with Executive Office personnel and performance of our audit procedures revealed that the procedures used to prepare the GAAP Package and the accrual are not documented. During FY2004 there was a turnover in the personnel as well as a reorganization of personnel and functions. The lack of written procedures compounded by the turnover and reorganization led to the significant delays and varied information. (*Department of Health and Human Services – Medical Assistance Program 93.778; State Children's Insurance Program 93.767*)

Recommendation

It is recommended that the Executive Office's Accounting and Budget Department document the procedures it uses for the preparation of all GAAP information. The documentation should address all the steps that need to be taken, and factors to be considered, for the proper completion of the GAAP Package, as well as for the calculation of the GAAP accrual. It should also identify the employees responsible for preparing, reviewing, and signing-off on the information.

Executive Office of Health and Human Services Findings on Reportable Conditions

Finding Number 38: Procedures Used in the Preparation of the Information for GAAP Reporting Purposes Need to be Documented (continued)

Department Corrective Action Plan

The information prepared for GAAP reporting purposes (the GAAP package) consists of two large pieces. One piece is the receivables estimate and the other an estimate of the accrual, or the claims that have been incurred but not received (IBNR).

To date, the Executive Office has relied on the instructions from the Office of the Comptroller in completing the receivables portion of the GAAP Package. In an effort to meet the deadline in the midst of reorganization and the implementation of a new statewide accounting system, the Executive Office submitted the receivables portion without sufficient quality control. As problems were discovered, Executive Office staff submitted revised drafts, which led to multiple submissions of the accounts receivable package. Late in the process, Executive Office staff did submit a package that all parties believe is correct. Having said the above, the Executive Office is developing a supplement to the instructions from the Office of the Comptroller for completion of the receivables portion of the GAAP Package. These supplementary instructions will serve as the receivables portion of the Department's corrective action plan. The Executive Office will submit the corrective action plan to the auditors.

The Executive Office has a detailed manual for developing the budget forecast, which includes an estimate of the IBNR. For the purposes of state budget development, the model develops a point estimate of the IBNR rather than a range, and does not incorporate any margin. The accrual is audited by comparing the Executive Office's point estimate to the range developed, using the Executive Office's raw data, by the auditor's actuary. For the auditor's actuary, the final step in the calculation of the range for the accrual is to add a margin to both the low and high end of the estimated range.

The source data for the model that was used in the first calculation of the IBNR, conducted according to the procedures, was flawed. As a result, the first accrual estimate was incorrect. Upon discovery of the error, the Executive Office pulled the data using the correct specifications and reran that portion of the model that estimates the IBNR. This second estimate was within the high and low range estimated by the auditor's actuary, before the addition of a margin. When the margin was added to the low and high ends of the actuary's range, the low end of the range exceeded the second Executive Office estimate. In light of the fact that the Executive Office model does not incorporate a margin, management made the decision to manually adjust their estimate of the accrual to be equal to the low end of the actuary's range. Having said this, the Executive Office agrees that the documentation of the calculation of the accrual should and will be updated and improved as part of the corrective action plan. The Executive Office will submit the corrective action plan to the auditors.

Responsible person: Darrin Shaffer
Implementation date: December 2004

Executive Office of Health and Human Services Findings not Repeated from Prior Years

1. The Executive Office of Health and Human Services (Executive Office) needed to obtain an independent auditor's report on the internal controls in place at its service organization (Statement on Auditing Standards #70). The Executive Office did obtain a SAS 70 report for FY2004 from an independent auditor and is in the process of reviewing the Report submitted. The Report draft issued contained an unqualified opinion. *(Fiscal Year 2003 Single Audit Finding 32)*

Department of Elder Affairs Background

The Department of Elder Affairs (Department) was established by Section 2 of Chapter 6A of the Massachusetts General Laws. Its responsibilities include the administration and oversight of various programs and services that benefit older citizens in the Commonwealth in accordance with the requirements of the Older Americans Act of 1965, as amended.

The mission of the Department is to promote dignity, independence, and rights of Massachusetts elders and to support their families through advocacy and the development and management of programs and services.

The Department's responsibilities include the administration and monitoring of protective, supportive and nutritional programs and services for 1.1 million elders, including case management and in-home services through the Home Care Program, nutrition, ombudsman services for residents of long-term care facilities and assisted living residences, and for recipients of services in the community, protective services and a variety of supportive and informational services including transportation, legal services, health benefits counseling, information and referral and senior center programs. The nutrition program provides education and over eight million meals to elders through home delivered (Meals on Wheels) or congregate meal sites. In addition, the Department is responsible for certifying over 160 Assisted Living Residences and administering Prescription Advantage, the nation's first state sponsored prescription drug insurance plan for seniors age 65 and older and low-income disabled adults. Elder Affairs' programs and services operate through a statewide network providing services to elders through both regional and local agencies which includes 27 regional Aging Services Access Points, 23 Area Agencies on Aging that operates programs authorized under the Older Americans Act, 348 municipal Councils on Aging, and 290 senior and drop-in centers.

In FY2004, the Department administered \$328 million with federal funds totaling approximately \$32.4 million.

The Department's major program is the Cluster of:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.044	Special Programs For The Aging-Title III, Part B-Grants for Supportive Services and Senior Centers
93.045	Special Programs For The Aging-Title III, Part C- Nutrition Services
93.053	Nutrition Services Incentive Program

Department of Elder Affairs

Findings on Compliance with Rules and Regulations

Finding Number 39: Federal Reports were not Reconciled with the Commonwealth's Accounting System

As noted in the prior years, the Department of Elder Affairs (Department) did not reconcile the Financial Status Report (SF 269) to the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's accounting system, for the Title III Program. A review of FY2004 SF 269 indicated that, while there were secondary reviews of reports, the Department did not implement a system to ensure that the amount compiled and reported by the Department on the SF 269 is reconciled to MMARS. The SF 269 is prepared based on the monthly reports submitted by the various Area Agencies on Aging (AAA), which are then compiled and added with state level administrative expenses. The purpose of the SF 269 is to report the status of federal funds, including program expenditures and program revenue. Consequently, the federal government does not have adequate assurance that amounts reported are contained within MMARS and that they are fairly stated.

The OMB Circular A-133 Compliance Supplement Section 3L requires that the Department include all activity within the reporting period to be supported by their underlying accounting records and be fairly presented in accordance with the program requirements.

The Department currently cannot prepare the SF 269 from MMARS due to the commingling of the various components of the Title III Program (Part B, C, D, E and Ombudsman) within three appropriations. This procedure has required the Department to compile information outside of MMARS in order to report separately the Title III Programs components' revenue and expenditures. Department officials have stated that new appropriation accounts have been requested for the FY2005 budget and new codes are being added to the NewMMARS chart of accounts that will facilitate preparation of the SF 269 for Title III and Title VII, but these procedures had not been implemented as of June 30, 2004. (*Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044 and Special Programs for the Aging - Title III, Part C - Nutrition Services 93.045; Nutrition Services Incentive Program 93.053; Fiscal Year 2001; 2003 Single Audit Finding 55*)

Recommendation

The Department should ensure that the new appropriation accounts and NewMMARS codes provide the separation necessary so each federal program can be identified. This procedure will ensure that the Department can prepare the SF 269 Report from MMARS and avoid the extensive reconciliation required under the current system.

Department Corrective Action Plan

With the introduction of NewMMARS on July 1, 2004, all transactions now require coding that distinguishes the specific federal grant and grant year to be charged, and the purpose of the activity for which the expenditure is made. Elder Affairs has implemented these codes and is now able to separate allocations and expenditures by activity (e.g., Area Plan Administration, Medication Management) and grant award (Title III Part B, C, D, and E, and Title VII Elder Abuse Prevention and Ombudsman). A request for separate accounts was made as part of the FY2005 budget process. However, the final GAA did not provide these accounts. Elder Affairs has requested and the Comptroller's Office has agreed to establish the accounts. At the present time, however, Elder Affairs believes it has met the standard.

Responsible person: Randy Garten
Implementation date: Completed

Department of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 40: Fiscal Year 2004 Cost Allocation Plan not Finalized

The Department of Elder Affairs (Department) did not complete the FY2004 indirect cost allocation plan because the Department is evaluating a change in its cost allocation methodology. Rather, it applied the provisional rate of 21% to its federal grants during FY2004.

The provisional rate of 21% charged to the federal grants in FY2004 was in accordance with a negotiated agreement with the Department of Labor dated October 1, 1996. The agreement stipulates that:

"Commencing with State Fiscal Year 1993, indirect cost rates may be used as a budgetary tool in establishing grant or contract amounts. Nevertheless, only actual indirect costs can be charged to Federal grants and contracts in accordance with cost accounting procedures approved by the Office of Cost Determination...."

The agreement stipulates that the Department may apply a budgetary rate of 40% for all programs beginning July 1, 1996 "until amended" (an actual plan is developed). The Department and the Commonwealth, however, have continued to take a more conservative approach by applying the 21% rate during FY2004, resulting in a total of \$366,776 of indirect costs charged to the federal programs for fiscal year. The Agreement also states that only actual indirect costs can be charged to federal grants and contracts. The Department is required to compute the actual rate for each fiscal year in accordance with the cost accounting procedures approved in the Department's Departmental Cost Allocation Plan. The actual rate should be compared with the provisional rate used to bill federal programs and any recoveries must be credited against the applicable federal program or additional costs may be charged. Based on the cost allocation plans developed and used for the years 1999 – 2003, the Department undercharged the Title III federal grants by using the 21%. (*Department of Labor - Senior Community Service Employment Program 17.235; Department of Education - Eisenhower Professional Development State Grants 84.281 and Reading Excellence Act 84.338; Department of Health and Human Services - Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging – Title IV – and Title II Discretionary Projects 93.048; Nutrition Services Incentive Program 93.053; Centers for Medicare and Medicaid Services (CMS) Research, Demonstration and Evaluations 93.779; Maternal and Child Health Services Block Grants to States 93.994*)

Recommendation

The Department should also ensure completion and submission of its FY2004 plan and record indirect costs based on actual allocation.

Department Corrective Action Plan

Elder Affairs formally requested assistance from the Executive Office of Health & Human Services (HHS) consolidated Revenue Division. HHS has contracted with PCG, Inc. to develop a more accurate methodology for establishing indirect costs. This methodology, however, will be applied to FY2005. PCG, Inc. will meet with Elder Affairs and assist in completing the FY2004 Cost Allocation Plan.

Responsible person: Martin Baker
Implementation date: January 15, 2005

Department of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 41: Monitoring of Area Agencies Needs to Continue to Improve

As noted in the prior year, the Department of Elder Affairs (Department) needs to continue to implement its monitoring procedures of the Area Agencies on Aging (AAA) to ensure that funds are being spent in accordance with contract requirements and federal and state regulations and to assess program quality and effectiveness. During fiscal years 2003 and 2004, the Department implemented a number of improvements in its monitoring of the AAAs by the Title III Programs Administration Unit (Unit). The Unit performs desk reviews of area plans, subrecipient monitoring, and development and review of standard invoicing requirements. However, the Department has not implemented fully its corrective action, including a comprehensive statewide monitoring tool based on federal and state regulations and policies to review AAAs' program quality and effectiveness. Although the Area Agency Standards and Indicators document that will serve as the tool for on-site monitoring has been completed, on-site visits did not begin during FY2004.

The Department passes Title III federal funds through to AAAs for programs including elderly nutrition and supportive services. OMB Circular A-133 §400(d) lists one of the responsibilities of pass-through entities as:

"Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and provisions of contract or grant agreements and that performance goals are achieved."

OMB Circular A-133, Compliance Supplement, Part 3 Section M, Subrecipient Monitoring further states that:

"During-the-Award Monitoring - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

"Monitoring activities normally occur through-out the year and may take various forms, such as: Reporting – reviewing financial and performance reports submitted by the subrecipient. Site Visits – performing site visits at the subrecipient to review financial and programmatic records and observe operations. Contact – regular contacts with subrecipients and appropriate inquiries concerning program activities."

In addition to federal regulations, the Commonwealth of Massachusetts' Procurement Policies and Procedures Handbook Chapter 5 Contract Execution and Management: Monitoring and Evaluating Contractor Performance and Compliance states in part:

"The Commonwealth has a responsibility to conduct monitoring and evaluation of the commodities and services it purchases. These activities can assist in identifying and reducing fiscal and programmatic risk as early as possible thus protecting both public funds and clients being served. Contract managers are responsible for monitoring contractor performance and other issues that arise during the life of the contract. In developing monitoring and evaluation procedures, the Commonwealth, through its departments should strive for methods which rely on, among other things, national or industry standards and which are coordinated, cost efficient and appropriate to the level of risk to the Commonwealth in the purchase of the commodities or services."

Department of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 41: Monitoring of Area Agencies Needs to Continue to Improve (continued)

Department officials stated that monitoring activities are conducted through monthly and annual financial reports, monthly nutrition program statistical reports, annual programmatic statistical reports, site visits, phone contacts, and monthly meetings with AAA Directors. By not fully implementing the monitoring of subrecipients, the Department cannot ensure that federal awards are used for authorized purposes in compliance with contracts, laws and regulations, or that fiscal and programmatic records are being maintained. (*Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044 and Special Programs for the Aging – Title III, Part C - Nutrition Services 93.045; Nutrition Services Incentive Program 93.053; Fiscal Year 2001; 2003 Single Audit Finding 59*)

Recommendation

The Department should establish and implement its statewide monitoring tool, including site visits, for FY2005 to evaluate and assess the AAAs' performance and record keeping for program quality and effectiveness.

Department Corrective Action Plan

The Department of Elder Affairs has fully implemented a comprehensive statewide monitoring tool based on Federal and State regulations and policies to review Area Agencies on Aging program quality and effectiveness. The Department started on-site reviews of AAAs in July 2004 with the release of the Elder Affairs' document, *Standards and Indicators – Title III Programs*, that describes benchmarks for quality operation of Title III Programs and menus of activities in support of achieving them. The target points and activities provide the basis for Elder Affairs' on-site monitoring of Title III Programs as carried out by AAAs.

Elder Affairs has implemented procedures to visit each of the twenty-three AAAs once per year, at a minimum, in order to conduct an on-site visit. A report entitled, *Title III Program – Monitoring Report*, is presented to the AAA within sixty days of the site visit. The Report includes a section for 'Observations and Suggested Actions', as well as a section for 'Required Corrective Actions'. The 'Required Corrective Actions' portion of the report requires a response from the AAA within a defined period. Continuing communication, guidance, and where necessary additional site visits, are the courses of action in managing AAA responses to suggested and required corrective actions in Elder Affairs' work to identify and reduce fiscal and programmatic risk.

The monitoring review of the policies, procedures and operations of the AAAs and the subsequent report provides Elder Affairs and the agencies the opportunity to collaborate and cooperate toward achieving the best quality of services for elders. Combined with ongoing monitoring activities including monthly and annual financial reports, monthly nutrition program statistical reports, annual programmatic statistical reports, site visits, phone contacts, and monthly meetings with AAA directors, the *Standards and Indicators – Title III Programs and the Title III Program – Monitoring Report* provides Elder Affairs with the necessary tools to ensure that Federal awards are administered in compliance with laws and regulations.

Responsible person: Theodore Zimmerman
Implementation date: Completed

Department of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 42: Monitoring of Audit Findings Relating to Area Agencies on Aging Needs Improvement

As indicated in the prior year, the Department of Elder Affairs (Department) did not issue management decisions on the Title III audit findings disclosed for two of its Area Agencies on Aging (AAA) in a timely manner. During the FY2004 audit, two of the 17 AAA audit reports selected for testing contained audit findings and another two audit reports could not be located. The Department could not provide documentation of management follow-up of these four audit reports.

OMB Circular A-133, Compliance Supplement Part 3 states that:

“A pass through entity should ensure that subrecipient audits are completed within nine months of the end of the subrecipient’s audit period, and should issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report. It should also ensure that subrecipient take timely and appropriate corrective action on all audit findings.”

Department officials indicated that they have policies and procedures relating to obtaining audits and audit findings of the AAA. The procedures include issuing a management decision on all audit findings within the required timeline. However, the personnel responsible for following up on subrecipient audit findings did not appear to be aware of these findings and no documentation was provided on management decisions relating to the two AAA audit reports with findings and the two missing audit reports in our testing. (*Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044 and Special Programs for the Aging – Title III, Part C - Nutrition Services 93.045; Nutrition Services Incentive Program 93.053; Fiscal Year 2003 Single Audit Finding 60*)

Recommendation

The Department should ensure that policies and procedures relating to AAA audit findings are being implemented through the proper review and supervision of all personnel responsible for resolving audit findings, the timely review of management decision and the AAA’s corrective action.

Department Corrective Action Plan

Elder Affairs is one of several agencies that will be included in a centralized provider/subrecipient audit review and tracking process that the Executive Office of Health and Human Services (EOHHS) is scheduled to implement in January, 2005. EOHHS staff with specific training in provider/subrecipient auditing will form an Audit Unit which will be responsible for reviewing all provider/subrecipient and audit reports and work with the appropriate purchasing agencies to follow up resolve all audit findings. When this process is implemented, Elder Affairs will notify EOHHS of all previously unresolved provider/subrecipient audit findings so that they will be included in the review, tracking, and resolution process.

Responsible person: Martin Baker
Implementation date: June 30, 2005

Department of Elder Affairs

Findings on Compliance with Rules and Regulations

Finding Number 43: Lack of Documentation to Support Payroll Charges to Federal Awards

The Department of Elder Affairs (Department) could not find the personnel file for one of three payroll selections tested and as a result could not provide appropriate documentation to support these payroll charges to the federal awards.

OMB Circular A-87, Attachment A, Part C, Section 1, Factors affecting allowability of costs states that:

“To be allowable under Federal awards, costs must meet the following general criteria...be adequately documented”

Department officials stated that the Department properly maintains personnel files with information that support payroll charges to federal awards. However, during the present year a number of personnel files, including the file in question of an individual who retired during the year, were lost when being transported during the Department’s move. The payroll charge to the federal grant for this individual was \$197.87 for the weekly pay period ending September 6, 2003. The charge for this individual for the entire year would have been about \$10,000 and depending on how many other files are missing the unsupported charges to federal grants could be significant. (*Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044*)

Recommendation

The Department should exhaust efforts to find or reconstruct the information missing that supports the payroll charges to the federal awards.

Department Corrective Action Plan

A single file, associated with a retired employee, was lost during renovations. Every effort has been made to locate and rebuild the appropriate documentation. Despite an exhaustive attempt to find the record, the official file has not been located.

Elder Affairs believes, however, that sufficient external controls exist to ensure that payroll charges occur correctly. All current (active) employee files are maintained by Executive Office of Human Services (EOHHS), Human Resources Division, located at 600 Washington St., Boston, MA. Electronic payroll records are also maintained by EOHHS. All employees’ activities are recording utilizing activity codes that are reflective of the percentage of time they spend performing duties for various duties. Individual employee activities may be divided utilizing Labor Cost Management rules, which allow Elder Affairs to divide an individual’s time accurately. These rules exist within HRCMS (the Commonwealth’s personnel & payroll processing system) and are applied to each payroll run.

Responsible person: Mary Cummings
Implementation date: N/A

Department of Elder Affairs

Findings not Repeated from Prior Years

1. The Department of Elder Affairs (Department/ used provider information and not Area Agency on Aging Information to prepare the SF 269 Report. The Department has now adjusted the process to prepare the SF 269 from the underlying accounting records of Elder Affairs. *(Fiscal Year 2003 Single Audit Finding 56)*
2. The Department needed to develop a final indirect cost plan for fiscal years 1999, 2001, 2002, and 2003. The plans for those years have been completed, a reconciliation of the indirect costs charged to the amounts identified in the plans was completed and the appropriate adjustments made to federal grant accounts. *(Fiscal Year 2003 Single Audit Finding 57)*
3. The Department needed to fully document the Title III Programs carry forward of unliquidated balances relating to awards to AAAs. The Department implemented a documented process that ensures that all unliquidated obligations are obligated within the timeframe permitted by federal regulations. *(Fiscal Year 2003 Single Audit Finding 58)*

Executive Office of Public Safety Background

The Executive Office of Public Safety (EOPS) oversees 17 agencies, boards, and commissions. The EOPS Program Division is the state-planning agency responsible for applying for and administering federal and state criminal justice grants.

The Department of Homeland Security, Office of Domestic Preparedness makes State Homeland Security Grants Funds available to states, which then make sub-awards to state and local units of governments. Through these programs, the Department of Homeland Security provides planning, equipment, training, exercise, and management funding to emergency prevention, preparedness, and response personnel in all 50 states. EOPS works in partnership with federal, regional, local and private sector entities to enhance statewide capabilities to detect, prevent, respond to and manage the consequences of acts of terrorism and other critical incidents.

A key federal grant program administered by EOPS is the Edward Byrne Memorial State and Local Law Enforcement Assistance Program (the Byrne Program). The Byrne Program, created by the Anti-Drug Abuse Act of 1988 (Public Law 100-690), places emphasis on drug-related crime, violent crime, and serious offenders, as well as multi-jurisdictional and multi-state efforts to support national drug control priorities. The Bureau of Justice Assistance makes Byrne Program Formula Funds available to states, which then make sub-awards to state and local units of governments.

The Byrne Formula Grant Program is a partnership among federal, state, and local governments to create safer communities and improved criminal justice systems, with emphasis on violent crime and serious offenders, and to enforce state and local laws that establish offenses similar to those in the federal Controlled Substances Act. Grants may be used to provide personnel, equipment, training, technical assistance, and information systems for more widespread apprehension, prosecution, adjudication, detention, and rehabilitation of offenders who violate such state and local laws.

The Office of Juvenile Justice and Delinquency Prevention administers the Juvenile Accountability Incentive Block Grant (JAIBG) program. Through the JAIBG program, funds are provided as block grants to states that have implemented, or are considering implementation of, legislation or programs promoting greater accountability in the juvenile justice system.

In FY2004, EOPS administered approximately \$300.5 million, of which \$32.7 million was in federal funds. The federal funding to EOPS is detailed in the accompanying Schedule of Expenditures of Federal Awards. EOPS's major programs were:

<u>CFDA#</u>	<u>Federal Program Description</u>
16.007/97.004	State Domestic Preparedness Equipment Support
16.579	Byrne Formula Grant Program
16.523	Juvenile Accountability Incentive Block Grant

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 44: Contract and Payment Vouchers not in Compliance with Commonwealth Policies

The Executive Office of Public Safety (EOPS) is not in compliance with the standard contract requirements for payments made within the service contract dates. The FY2003 single audit report noted that payments were made to a municipal police department for the establishment of a Drug Task Force outside the service contract dates. The Task Force work began eight months before there was a fully executed contract. As a result, the dates of service on the payment vouchers prepared by EOPS personnel were falsified to generate a payment to the police department because the work was started prior to the execution of the contract. The Massachusetts Management Accounting and Reporting System (MMARS) will not accept a payment transaction with service dates prior to the effective date of the contract.

In response to the prior audit, EOPS stated, “if a standard contract form is not executed prior to the dates of service for the contract due to late submittal on the part of the seller department, the effective dates of the contract will be the last signature date on the document. No requests for payment will be reimbursed that fall outside of the service dates of the contract.” EOPS also stated “The Programs Division is not paying for services outside of the contract period as reported on quarterly reports. Actual contract periods are being entered onto the state accounting system to correspond with the last signature date or anticipated contract start date, whichever one is later.”

However, our follow up disclosed that in 1 of 75 transactions tested, a reimbursement payment totaling \$23,500 was made outside the service contract date. EOPS entered into a contract with a municipality to establish a Drug Task Force that was to provide services from November 1, 2002 to September 30, 2003. The authorized representative from the Task Force signed the contract on October 22, 2002, however the Assistant Secretary of EOPS signed and executed the contract on June 30, 2003. The subrecipient’s expenditure report indicated that the services were provided from April 1, 2003 to June 30, 2003, outside of the original contract dates. The Commonwealth’s standard contract form requires the contract to be signed prior to the start date of the contract and prior to services being rendered as follows:

Notwithstanding verbal or other representations by the parties, or an earlier start date indicated in a Contract, the effective start date of performance under a contract shall be the date a Contract has been executed by an authorized signatory of the Contractor, the Department, a later date specified in the contract or the date of any approvals required by law or regulation, whichever is later.

(Department of Justice – Byrne Formula Grant Program 16.579; Fiscal Year 2002; 2003 Single Audit Finding 19)

Recommendation

EOPS should reemphasize the importance of ensuring that the standard state contract is signed prior to the start date of the contract and prior to the services being rendered. Accurate information reflecting the actual dates of service should be input to the Commonwealth’s MMARS accounting system. In addition, with the implementation of the NewMMARS consideration should be given to the risk associated with inaccuracies and incomplete information being input.

Department Corrective Action Plan

The EOPS will continue with the corrective action plan implemented as a result of the SFY03 single audit. Out of the 75 transactions tested one was not compliant. By using the 75 randomly selected documents as a sample set, the EOPS was 98.67% compliant with the corrective action plan implemented and used by staff.

Responsible person: Derek Lennon
Implementation date: Implemented

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 45: Salaries Allocated to Federally-Funded Programs are not Supported by Proper Documentation

The FY2003 single audit report disclosed that the Executive Office of Public Safety (EOPS) did not maintain adequate documentation for salaries charged to federal awards and there was no process in place to determine that salaries charged to a federal program reflect an employee's actual hours spent on that program. As a result of the lack of documentation for salaries and a process to determine the actual salaries to be charged to the federal grants, costs were questioned for the period July 1, 2002 to June 30, 2003 totaling \$816,642.22.

EOPS implemented new policies and procedures to provide proper supporting documentation for all salaries charged to federal grants. A new employee sign-in sheet was designed to track an employee's actual time spent on each grant on a weekly basis. On a weekly basis, each employee was to certify as to whether his or her work was consistent with the anticipated programmatic breakdown. The allocation was periodically compared to the salary chart designed at the beginning of the fiscal year. At the end of each month, the fiscal specialist, independent of the annual salary chart process, was responsible for meeting with employees whose salary apportionment is split across grants to verify that the percentages reported on the weekly sign-in sheets were accurate. On a quarterly basis, the independent fiscal specialist submitted quarterly performance percentages, for each employee paid, in part or wholly, by federal funds to the fiscal manager responsible for updating the annual salary chart.

The fiscal manager responsible for the salary chart was to transfer expenditures, if necessary, across federal grants so that salary allocated to specific grants correlated with actual employee performance. The new policies and procedures were not implemented until January 2004.

OMB Circular A-87 states, in part:

Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Such documentation must meet the following standards including: a) They must reflect an after-the-fact distribution of the actual activity of each employee, b) They must account for the total activity for which each employee is compensated, c) They must be prepared at least monthly and must coincide with one or more pay periods, and d) They must be signed by the employee.

A review was conducted of nine employee payroll transactions, including a review for compliance with the OMB Circular A-87 requirement for personnel activity reports for individuals charged to multiple programs. EOPS did not maintain personnel activity reports nor did they have a cost allocation system to compare the actual employee's hours to hours charged to the program for July 1, 2003 to December 31, 2003. Salaries, related fringe benefits, and indirect costs are charged to each grant based on a budget developed at the beginning of the fiscal year. As a result, EOPS was not in compliance with OMB Circular A-87 requirements during that period.

The chart below shows the number of employees and the related salary, fringe benefit and indirect costs charged to the Byrne Formula Grant (BFG) and the Juvenile Accountability Incentive Block Grant (JAIBG), and Homeland Security Grants (HSG) I and II. Because of the lack of documentation for the salaries charged and a process to determine the actual salaries to be charged to the federal grants, costs were questioned for the first six months of the audit period, July 1, 2003 to December 31, 2003 as follows:

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 45: Salaries Allocated to Federally-Funded Programs are not Supported by Proper Documentation (continued)

<u>Grant</u>	<u>Number of Employees</u>	<u>Salaries</u>	<u>Fringe Benefits</u>	<u>Indirect Cost</u>	<u>Total Questioned Costs</u>
BFG	18	\$229,333	\$53,847	\$52,746	\$335,928
JAIBG	9	75,039	17,619	17,259	109,918
HSG1	5	18,908	4,439	4,348	27,697
HSG2	7	26,504	6,223	6,095	38,823
Total		<u>\$349,786</u>	<u>\$82,129</u>	<u>\$80,450</u>	<u>\$512,367</u>

Furthermore, some employees did not consistently initial the monthly and quarterly worksheets as required in the new policies and procedures developed as a result of the prior year audit result. A test of eight employees revealed that only one initialed the monthly worksheet in January 2004, and three in February 2004. EOPS could not locate the March 2004 monthly worksheet that was initialed by employees and only four of nine employees initialed the April to June 2004 quarterly spreadsheet. EOPS did perform a quarterly spreadsheet review to determine if any noted differences were greater than 10% of the original budgeted ratio for the year. EOPS Programs Division grant manager noted that during FY2004 there were no differences greater than 10% and no adjustments were made by EOPS to the original budgeted ratio.

The fiscal specialist also left employment with EOPS during the middle of July 2004. No one was assigned the responsibility to continue monitoring the process as of the middle of September 2004. Management was aware of these federal requirements. Because of the FY2002 and 2003 single audit findings, regarding salary allocations, the EOPS Programs Division contacted and submitted a proposed plan to the Department of Justice (DOJ) Monitoring Division to ensure that the new plan was in accordance with OMB A-87. *(Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Incentive Block Grant 16.523, and Department of Homeland Security -- State Domestic Preparedness Equipment Support 16.007/97.004; Fiscal Year 2002: 2003 Single Audit Finding 21)*

Recommendation

EOPS should reiterate the importance of the policies and procedures that were developed to require proper support for salaries and wages charged to federal programs including periodic certifications and personnel activity reports to comply with OMB Circular A-87. Management should also assign the responsibility of monitoring the process to another staff member to replace the fiscal specialist to ensure continuity of the process. EOPS should ensure that all supporting documentation is properly maintained and can be retrieved to support the corrective action. Further, a person should be assigned the responsibility to monitor and supervise the process.

Department Corrective Action Plan

The EOPS will continue to implement the corrective action plan from the FY2003 audit. Staffing issues have caused an unanticipated delay in achieving full compliance. That staffing shortfall is being addressed. A new person has been assigned to document, monitor, and supervise the process.

Responsible person: Derek Lennon
Implementation date: January 1, 2005

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 46: Excess Federal Cash on Hand at Grantor and Subrecipient Levels

Our review of Executive Office of Public Safety (EOPS) accounting records and EOPS reviews of subrecipient records revealed that EOPS and their subrecipients did not process federal funds in a timely manner. We noted excess federal funds totaling \$1,948,239 during FY2004. The excess cash on hand is as follows:

- On February 25, 2004, EOPS sent \$1,003,104 in Homeland Security federal grant funds to a town, rather than the Metropolitan Law Enforcement Council (the non-profit organization with the responsibility for disbursing these funds). The town subsequently decided not to be the subrecipient of these funds. The funds were returned to EOPS, however the original check was misplaced. EOPS requested another check from the town. The replacement check was issued to EOPS on April 13, 2004, but was not processed in the Massachusetts Management Accounting and Reporting System (MMARS) until July 26, 2004, over three months after the original date of the refund check. EOPS officials stated that a turnover in an employee position whose responsibilities were to process federal grant refunds partially caused the delay.
- EOPS recorded a Homeland Security federal grant expenditure of \$32,355 in MMARS on July 8, 2003 and drew down the federal funds. However, before the expenditure was disbursed from MMARS, EOPS cancelled the transaction. On September 15, 2003 approximately two months later EOPS processed and disbursed this expenditure in MMARS without adjusting the original draw down. As a result, EOPS had excess federal funds on hand for two months.
- A town expended \$100,000 for Byrne Grant related activities. For this expenditure the town requested reimbursement of only \$73,909 because the town had previously received \$26,091. Records were not available at EOPS to determine how long the town had the excess funds on hand.
- As a result of an onsite visit, EOPS requested a town reimburse the federal Byrne Grant for \$7,752 on June 1, 2004. The town issued a refund check dated June 24, 2004. The check was deposited by EOPS on September 21, 2004, almost three months after the date of the check.
- As a result of reviews of subrecipient records, EOPS contracted with an independent audit firm to conduct a review of subrecipients to determine if funds were being expended, documented, and recorded in accordance with federal laws, regulations and guidelines. The independent auditors reviewed four municipalities and reported the following:
 - a On March 30, 2004, EOPS received a \$409,877 refund for unexpended federal Byrne Grant funds from a municipality. The refund was not processed by EOPS until May 27, 2004 -- almost two months later.
 - b On May 26, 2004, EOPS received a \$80,509 refund for unexpended federal Byrne Grant funds from another municipality. The refund was not processed by EOPS until June 14, 2004 -- over two weeks later.
 - c On April 7, 2004, EOPS requested a refund of \$60,698 from a third municipality for unexpended Byrne Grant funds. The municipality then determined that unexpended funds actually totaled \$123,549. The city submitted a check dated September 20, 2004. The check was deposited on September 21, 2004. Records were not available at EOPS to determine how long the town had the excess funds on hand.

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 46: Excess Federal Cash on Hand at Grantor and Subrecipient Levels (continued)

- d The fourth municipality had \$265,000 in unexpended Byrne Grant federal funds. EOPS is currently working with the town to determine how long the funds have been on hand, whether any of the funds have been expended, and if a refund is due.

The Cash Management Improvement Act (CMIA) was an amendment to the Intergovernmental Cooperation Act, 31 U.S.C 6503. The purpose of this Act is to ensure greater efficiency, effectiveness, and equity in the exchange of funds between the Federal Government and the States. Under this provision 31 U.S.C. 5 (b) of Pub. Law 101-453, States are no longer exempted from payment of interest to the Federal Government for drawing down funds prior to the need to pay off obligations incurred. The provisions of 31 U.S.C. section 6503 (c) (1) require that the States pay interest in the event that the States draw down funds before the funds are needed to pay for program expenses. Further, the Massachusetts General Law Chapter 30, Section 27 requires that:

Except as otherwise expressly provided, ... money received on account of the commonwealth shall be paid daily into the treasury thereof..

EOPS officials stated that the \$409,877, \$123,549, and \$7,752 checks would be credited against the 2002 federal Byrne Grant. The \$80,509 check will be credited against the 2001 federal Byrne Grant. As of September 10, 2004 these credits had not yet been processed. (*Department of Justice - Byrne Formula Grant Program 16.579*)

Recommendation

EOPS should develop procedures to ensure that its financial management system can adequately provide support to, and a basis for, accurate financial reports. The EOPS system of internal controls should be improved by the design of appropriate supervisory, monitoring, and reconciliation procedures to reduce the risk of errors and omission and to ensure the proper operations of their financial management system and the reliability of financial reports, as well as compliance with federal regulations. EOPS should incorporate procedures that ensure prompt credits for federal grants to ensure additional federal funds are not drawn down.

EOPS should do timely reconciliation of appropriation account activity to ensure that all credits are accounted for, entered in a timely manner, and entered to the applicable account. Adequate review for the collection of funds due to the Commonwealth should be implemented to ensure all funds due are tracked and diligently followed up on until received.

To comply with Massachusetts General Law Chapter 30 section 27, EOPS should deposit funds received on behalf of the Commonwealth on a daily basis. EOPS should also ensure that the refunds received on behalf of the federal government are promptly credited to the applicable federal grant to avoid drawing down additional federal funds beyond immediate cash needs. Any interest earned on excess federal funds should be submitted to the federal government as required.

**Executive Office of Public Safety
Findings on Compliance with Rules and Regulations**

Finding Number 46: Excess Federal Cash on Hand at Grantor and Subrecipient Levels (continued)

Department Corrective Action Plan

The EOPS Programs Division will resume the responsibility of depositing and crediting refunds to the state accounting system in FY05. Additionally the EOPS Programs Division will review the processes and controls in place for reconciling appropriation account activity, and update said processes and controls to ensure all funds due are tracked and diligently followed up on until received.

Responsible person: Derek Lennon
Implementation date: January 1, 2005

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 47: Inadequate Supporting Documentation for Expenditures

The FY 2003 single audit disclosed that the Executive Office of Public Safety (EOPS) paid federal funds to subrecipients for the reimbursement of administrative expenses without sufficient documentation supporting the expenditures. As a result \$2,073,565 in costs was questioned. The FY2004 single audit disclosed that 24 transactions tested totaling \$3,304,957 in grant payments to subrecipients for FY2004 were inadequately supported. The total federal funds awarded by EOPS through contracts with subrecipients under the Homeland Security Program (HSG), Byrne Formula Grant Program (BFG), and the Juvenile Accountability Incentive Block Grant Program (JAIBG) was over \$9.6 million for FY2004.

The Commonwealth of Massachusetts Procurement Policies and Procedures Handbook, Chapter 5, Contracts Execution and Management: Payments, states, in part:

The Contractor shall be required to provide relevant supporting documentation to substantiate any claim for payment of an invoice or to support payments already made by the department.

OMB Circular A-133 places the responsibility on pass-through entities to monitor the activities of the subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of grant agreements.

Subrecipients submit payment vouchers for reimbursement of expenses along with their quarterly financial reports without breakdown or supporting detail of the expenses such as, payroll, supplies, and equipment. Some subrecipients submitted purchase orders and a price quotation; however, it could not be determined if subrecipients had paid for all the goods, actually received all the goods ordered and paid the amounts listed on the documentation. EOPS' internal policies and procedures state:

If the subrecipient has incurred an obligation (example: valid purchase order or acquisition) and this obligation will come due, and be paid within three business days of the receipt of funds from EOPS, the subrecipient may request the funds from the state.

We noted, however, no evidence in the subrecipient files to indicate that EOPS conducted reviews to determine that the obligations for purchase orders and price quotes came due within the required period. Without such information, EOPS cannot be assured that federal funds were disbursed in full for authorized purposes. Our review found that 24 payment transactions totaling \$3,304,957 to subrecipients during FY2004 were inadequately supported, as outlined below:

<u>Grant</u>	<u>Number of</u> <u>Expenditures</u>	<u>Total</u> <u>Questioned</u> <u>Costs</u>
HSG	6	\$2,258,539
BFG	16	841,468
<u>JAIBG</u>	<u>2</u>	<u>204,949</u>
<u>Total</u>	<u>24</u>	<u>\$3,304,957</u>

None of the questioned items above were selected by EOPS for on-site visits during FY2004.

In response to the prior audit, EOPS updated its requirements for reimbursement and supporting documentation and developed an educational tool that notifies subrecipients of the documentation to be submitted to EOPS for reimbursement, as well as the documentation to be maintained at the subrecipient level for inspection during fiscal and programmatic site visits. EOPS personnel intend on using this schedule for the next funding cycle of grants.

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 47: Inadequate Supporting Documentation for Expenditures (continued)

EOPS implemented additional procedures that include the requirement for subrecipients to submit documentation with the quarterly report for any single item of equipment purchased in excess of \$5,000. Other expenditure and time records will be reviewed and verified during financial and programmatic site visits. Program managers are required to initial quarterly financial reports to ensure that expenditures are aligned with approved budgets and that there is adequate supporting backup documentation. The grant conditions also include specific language about subrecipients' responsibilities concerning record retention. (*Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Incentive Block Grant Program 16.523, and Department of Homeland Security - State Domestic Preparedness Equipment Support 16.007/97.004; Fiscal Year 2002; 2003 Single Audit Finding 25*)

Recommendation

EOPS should continue to implement procedures requiring that subrecipients provide and maintain the information necessary to support payments. These procedures should provide EOPS with assurances that subrecipients are being reimbursed for authorized expenses, as well complying with all required rules and regulations. EOPS should establish procedures to ensure that when subrecipients incur obligations using purchase orders and/or price quotes, that the time requirements that are stated in the EOPS policy are met. The importance of proper and adequate supporting documentation should be reiterated to EOPS and subrecipient staff.

Steps should also be taken to identify those subrecipients that do not comply with EOPS requirements for record submission and retention, as well as applicable laws and regulations. EOPS should then assist them with training and guidance or take whatever sanctions deemed necessary for noncompliance.

Department Corrective Action Plan

The EOPS does not agree with the six transactions for Homeland Security totaling \$2.258M in questioned costs. The six transactions reviewed had supporting documentation in the form of purchase orders and/or cost statements from vendors for the equipment/services that were to be reimbursed. The Office of Domestic Preparedness (ODP) has determined that purchase orders and/or cost statements constitute sufficient backup documentation for reimbursement under the Homeland Security programs as long as subrecipients made payments to vendors within three business days of the receipt of funds from the EOPS. As noted above in the audit finding narrative, EOPS has developed an educational tool for subrecipients that notifies them as to the documentation required and will continue to provide assistance to subgrantees through workshops and/or conferences.

The following is an excerpt from EOPS guidance to homeland security sub-recipients:

Reimbursement Guidance for the FY2003 State Homeland Security Grant Program

** Sub-recipients are reminded that all transactions involving federal funds are governed by the United States Department of Justice Financial Guide.*

As discussed previously, this grant is not a fully reimbursable grant. Subrecipients are not required to receive delivery of equipment and expend funds before submitting a reimbursement request to EOPS. Rather, recipients need only submit a proof of obligation to initiate the reimbursement process. Based upon guidance received from the federal government, below is the procedure for reimbursement:

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 47: Inadequate Supporting Documentation for Expenditures (continued)

Department Corrective Action Plan (continued)

If the subrecipient has incurred an obligation (example: valid purchase order or acquisition) and this obligation will come due, and be paid within three business days of the receipt of funds from EOPS, the subrecipient may request the funds from the state. The sub-recipient should time the request of funds in such a way that takes into account the time it takes for the state government to process and disburse the funds, and to ensure that federal cash, once received, is a reimbursement for the state dollars paid to sub-grantees.

Please note that the sub-recipient is responsible for ensuring that there is sufficient time for the reimbursement request to be processed before payment is due to the equipment manufacturer and/or vendor.

Specifically, sub-recipients should allow:

Twenty-eight days from the date the payment voucher request is submitted to EOPS for the state to process and disburse funds. Any additional time as necessary for your local agency/unit of government to process the transactions(s).

Responsible person: Derek Lennon
Implementation date: Implemented

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 48: Monitoring of Subrecipients Needs Improvement

The FY2002 and 2003 single audit reports disclosed that the Executive Office of Public Safety (EOPS or Office) needed to improve its financial monitoring procedures of subrecipients to ensure federal funds are spent in accordance with contract requirements and to ensure that subrecipients have adequate systems of accounting and internal controls. In the corrective action plan, EOPS officials stated that they conduct financial monitoring activities through quarterly financial reports submitted by subrecipients, a quarterly programmatic report, desk reviews, on-site programmatic and financial reviews, and phone contacts. However, there was no process to review financial records of the subrecipients to determine that they have an adequate system of accounting and internal controls to ensure that federal funds are expended properly and in accordance with state and federal laws and regulations.

Further, EOPS did not have a system in place to determine which grantees are required to submit OMB Circular A-133 audit reports. The subrecipients are required by their contracts to submit annual financial statement audits to comply with OMB requirements, if applicable. EOPS relied on the audit reports for monitoring activities; however, it did not receive reports from all subrecipients that were required to submit them. There was no process to review financial records maintained at subrecipients that were not subject to A-133 audits.

EOPS began to improve their subrecipient monitoring procedures. Initiatives have been taken to develop a monitoring plan for all state and federal programs administered. Every effort has been made to keep the requirements similar across programs. The monitoring plan includes a certain percentage of programs to be monitored by fiscal staff who will review the following: accounting systems, internal controls, and compliance with state and federal expenditure regulations.

EOPS has actively performed programmatic monitoring/technical assistance through desk reviews and site visits. The Office established minimum monitoring requirements, detailing the number of total desk reviews, programmatic site visits, and financial site visits as a percentage of total sub-grantees for each program. However, the FY2004 single audit disclosed that while EOPS is making progress in subrecipient monitoring, policies and procedures still need to be enhanced to (1) identify and monitor the subrecipients that are required to submit A-133 audit reports and (2) require on-site visits of subrecipients to determine if the subrecipients were monitoring the work of their independent accounting firms.

EOPS identified excess federal cash being held in subrecipient bank accounts. (See Finding No. 46: *Excess Federal Cash on Hand at Grantor and Subrecipient Levels*.) Subsequently, EOPS hired an independent accounting firm to conduct a review of five subrecipients to determine if funds were being expended, documented, and recorded in accordance with federal laws. These reviews resulted in the return of \$621,688 of federal Byrne Formula Grant funds. This was primarily due to city and town subrecipients not performing proper monitoring activities of the firms with whom they conduct business.

Subrecipients are also required, by their contracts, to obtain and submit annual financial statement audits to comply with OMB Circular A-133, if applicable. A test of the three A-133 reports disclosed that one town's A-133 report was completed one year after the end of the audit period; nine months is the required limit. A review of another A-133 audit report disclosed that the independent accounting firm's management letter was not forwarded to EOPS.

By not monitoring subrecipient financial activity, including receiving all required A-133 audit reports, EOPS cannot ensure that federal awards are used for authorized purposes in compliance with contracts, laws, and regulations, or that fiscal records are being maintained properly and that subrecipients have adequate systems of accounting and internal controls.

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 48: Monitoring of Subrecipients Needs Improvement (continued)

EOPS disburses federal funds to subrecipients for the Byrne Formula Grant, Juvenile Accountability Incentive Block Grant, and State Domestic Preparedness Equipment Support programs. According to OMB Circular A-133, Subpart D, Section 400 (d)(3), the responsibilities of pass-through entities include:

Monitoring the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations and provisions of contract or grant agreements and that performance goals are achieved.

The Circular, Subpart D, Section 400(d), also states:

A pass-through entity shall ... for the Federal awards it makes ... (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

OMB Circular A-133, March 2003 Compliance Supplement, Part 3, Section M *Subrecipient Monitoring*, further states that:

Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed-upon procedures, and engagements for certain aspects of subrecipient activities, such as reviewing the subrecipient's single audit or program-specific audit results, and evaluating audit findings and the subrecipient's corrective action plan.

In addition to federal regulations, the *Commonwealth of Massachusetts' Procurement Policies and Procedures Handbook*, Chapter 5, Contract Execution and Management Monitoring and Evaluating Contractor Performance and Compliance, states in part:

The Commonwealth has a responsibility to conduct monitoring and evaluation of the commodities and services it purchases. These activities can assist in identifying and reducing fiscal and programmatic risk as early as possible thus protecting both public funds and clients being served. Contract managers are responsible for monitoring contractor performance and other issues that arise during the life of the contract. In developing monitoring and evaluation procedures, the Commonwealth, through its departments should strive for methods that rely on, among other things, national or industry standards and which are coordinated, cost efficient and appropriate to the level of risk to the Commonwealth in the purchase of the commodities or services.

With regard to the A-133 audit reporting requirement, all EOPS federal grant application instructions include a "Sub-grantee Requirements" section stating:

Local units of government whose towns or municipalities that expend \$500,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of the Office of Management and Budget's circular A-133. Applicant local units of government must submit a copy of their [most recent Fiscal Year] audit along with their grant applications.

The subrecipient grant conditions that must be signed by an authorized official upon receiving an award from EOPS contains a clause reminding them that an A-133 audit report "should be made annually but not less frequently than every two years." The grant conditions document is being revised to state that the audit report must also be submitted to EOPS if an audit is completed during the project period.

EOPS has made numerous financial and programmatic site visits in an effort to achieve the performance goals set out by management. Programmatic and financial site visit reports are formulated after the visit and are recorded on agency databases. (*Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Incentive Block Grant 16.523 and Department of Homeland Security - State Domestic Preparedness Equipment Support 16.007/97.004; Fiscal Year 2002; 2003 Single Audit Finding 24*)

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 48: Monitoring of Subrecipients Needs Improvement (continued)

Recommendation

EOPS should continue to implement the corrective action plan to (1) perform financial reviews of subrecipient records to ensure that they have adequate systems of accounting and internal controls, (2) perform on-site reviews of subrecipient records to ensure federal awards are used for authorized purposes in compliance with state and federal laws, regulations and provisions of contracts or grant agreements and that performance goals are achieved; (3) enforce policies that require applicable subrecipients to obtain and submit annual financial statement audits that comply with OMB Circular A-133; and (4) ensure subrecipients are performing adequate monitoring regarding the expenditure and disbursement of federal funds.

Furthermore, EOPS should review each subrecipient's financial statement audit, findings, and corrective action plan. EOPS should also obtain not only the A-133 audit reports, where applicable, but also all auditor letters or reports from all subrecipients. EOPS should issue management decisions on audit findings within six months of subrecipients' audit reports and ensure that appropriate and timely corrective action takes place.

Department Corrective Action Plan

The EOPS Programs Division will continue to perform fiscal site visits, programmatic site visits, as well as desk reviews, based on a percentage of programs, to sub-grantees. The Programs Division management team will continue to monitor and ensure that the target number of programs set out for visits and review at the beginning of the year are met by the end of FY05.

The EOPS will develop a system/process that better tracks the submission of audit reports subject to A-133 requirements. The process will include issuing management decisions on audit findings relative to programs administered by the Programs Division within six months of the receipt of the subrecipient audit report.

Responsible person: Derek Lennon
Implementation date: January 1, 2005

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 49: Payment Vouchers Approved after Disbursement of Funds

The FY2003 single audit report disclosed that appropriate financial managers who have signatory authority at the Executive Office of Public Safety (EOPS) approved 13 payment vouchers after the payment was made and entered into the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's accounting system. This action is not in compliance with the Commonwealth's bill paying policy. These vouchers were reviewed and approved by program personnel, indicating that the program goods and services were provided; however, program personnel do not have authority to approve payments through MMARS.

In the corrective action plan, EOPS stated that they would develop a new draft process consistent with the Comptroller's MMARS Policy Memo #289. However, our follow-up review disclosed that the practice reported in the FY2003 audit continued in FY2004. Appropriate management employees at EOPS approved eight vouchers totaling \$530,792 after the Commonwealth had disbursed payments. These vouchers were approved from one to eleven business days after being entered into MMARS.

The Office of the Comptroller's MMARS Policy Memo #289, *Commonwealth's Bill Paying Policy*, states, in part:

B. Manage invoice review/approval process:

There are 5 basic steps in the bill payment process.

Step 1 - Receipt of Invoice

Step 2 - Review Process

Step 3 - Approval of Expense

Step 4 - Financial Approval

Step 5 - Entry into MMARS

Each department should review its current steps to process payments. This may result in the identification of steps duplicated unnecessarily, in different levels of the department, sometimes resulting in significant payment delays.

An evaluation of the value added at each of these redundant points could result in a streamlined process and reduce the processing time in your timeline. A risk assessment of dollar threshold or program specific concerns may result in only certain payments requiring additional review.

Without appropriate financial management oversight, adequate review and sign-off of PV's prior to entry to the accounting system and disbursement of funds, EOPS cannot be assured that payments made are appropriate, within grant guidelines and used for the intended purpose of the program. (*Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Incentive Block Grant Program 16.523, Department of Homeland Security - State Domestic Preparedness Equipment Support 16.007/97.004; Fiscal Year 2003 Single Audit Finding 23*)

Recommendation

EOPS should develop and implement the policies and procedures to ensure that appropriate EOPS financial managers approve vouchers before their being entered into MMARS. This should include consideration of adding the appropriate managers and staff to the authorized signatory list so that there are sufficient and appropriate personnel to sign and review pertinent documentation to ensure timely, proper, and accurate bill paying.

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 49: Payment Vouchers Approved after Disbursement of Funds (continued)

Department Corrective Action Plan

The EOPS Programs Division will continue to use the system put in place as a result of the FY2003 single audit. EOPS stated an implementation date of February 1, 2004. Eight vouchers totaling \$530,792 were found to be non-compliant with the Commonwealth's policy for bill paying. All of the aforementioned vouchers were processed before the above-stated implementation date for the corrective action plan. The remaining 67 vouchers tested showed 100% compliance with the agency corrective action plan, as well as the Commonwealth's policy. Due to the compliance percentage, the Programs Division does not find it necessary to increase the number of authorized signatories in the division.

Responsible person: Derek Lennon
Implementation date: Implemented

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 50: Improvements Needed over Reconciliations

The FY2003 single audit report disclosed that the Executive Office of Public Safety (EOPS) was not performing regular reconciliations between its own records, the Massachusetts Management Accounting and Reporting System (MMARS), and the U.S. Department of Justice's LOCES system (the federal cash management system). As a result, EOPS did not detect a cash transfer to the Byrne Formula Grant Program by the Office of the Comptroller (OSC) that should have been posted to the Juvenile Accountability Incentive Block Grant (JAIBG) Program.

In response to the prior audit, EOPS implemented procedures to perform regular reconciliations and works with the Office of the State Treasurer and Receiver General (TRE) to receive monthly federal grant transfer statements. EOPS runs monthly subaccount warehouse draw down queries and matches the requested draws with federal reimbursements received by the TRE in order to develop quarterly grant balances. EOPS has reconciled the Byrne Formula Grant, JAIBG, and State Domestic Preparedness Equipment Supports as of June 2004.

While EOPS has made significant improvements in reconciling federal grants during FY2004, there is still need for improvement. We identified items that were not deposited and credited timely to state appropriation accounts and the applicable federal grant. (See Finding No. 46.) An expenditure refund was also incorrectly made and posted to the wrong account.

Our test of transactions disclosed the following:

- A refund check to the State Domestic Preparedness Equipment Support Program dated April 13, 2004 for \$1,003,104 was misplaced and not posted until July 26, 2004.
- EOPS paid a total of \$465,334 on January 5, 2004 from appropriation account #8000-4691 to reimburse a town for an expenditure to a vendor. The vendor refunded \$465,334. EOPS deposited the refund check on February 17, 2004 and posted it on March 2, 2004 to appropriation account, #8000-4692. On July 2, 2004, EOPS compounded the error by posting an additional refund again for the same amount to the same wrong appropriation. EOPS then posted yet another entry to #8000-4692 totaling \$930,669 on August 3, 2004 in an attempt to correct the posting errors. A final correcting adjusting entry was posted on August 31, 2004.
- Approximately \$7.3 million dollars expended for Homeland Security during FY2004 were not drawn down from the federal grant as of September 15, 2004, because EOPS did not receive or follow-up on an approved federal grant adjustment notice that is required under the grant's special conditions. (See Finding No. 52)

Massachusetts General Law Chapter 30, Section 27 states in part:

Except as otherwise expressly provided, ...money received on account of the commonwealth shall be paid daily into the treasury thereof...

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 50: Improvements Needed over Reconciliations (continued)

The Office of the Comptroller's, **Internal Control Guide for Departments**, Chapter Three, *Revenue*, states in part:

Collected Revenue

Collected revenues are those that are paid to the department at the point where a service/good has been provided. The department should develop internal controls to ensure that staff who collect or process revenue understand the requirements of state finance law as well as governing policies and procedures issued by the Office of the Comptroller and/or the department. The staff responsible for recording collected revenue should carefully document all revenue activity in accordance with sound management practices and all governing policies. Collected revenue should be deposited into a Commonwealth account on a daily basis. Deposits should be reconciled daily by an individual independent of the collection process. Collected revenue should be reconciled monthly to the state accounting system records and to the monthly bank statement.

Collected revenue should be credited to appropriate revenue source and fund, as authorized in statute.

Untimely or inadequate reconciliations can result in incorrect or invalid entries being made to the Commonwealth's accounting system and the inability to identify all revenues that are due to the Commonwealth. It could also lead to inaccurate reporting of federal funds received and discrepancies between grants, resulting in ineligible draw downs and reimbursement of funds to federal agencies. (Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Incentive Block Grant Program 16.523, and Department of Homeland Security – State Domestic Preparedness Equipment Support 16.007/97.004; Fiscal Year 2003 Single Audit Finding 26)

Recommendation

EOPS should continue efforts to perform timely reconciliations of all accounts as is required. EOPS should review and revise the reconciliation process to ensure all credits are tracked, accounted for, processed timely, and reflect accurate balances as required by OSC requirements, laws, and regulations. Procedures should include a method to identify funds that may be due to the Commonwealth. Finally, EOPS should implement an adequate monitoring and supervisory review process of adjustments and draw downs of federal funds.

Department Corrective Action Plan

The EOPS Programs Division will review its internal control plan and process for reconciliations and modify or create additional processes to ensure that all credits are tracked appropriately and that funds due to the Commonwealth are accounted for and credited to the appropriate funding stream.

Responsible person: Derek Lennon
Implementation date: February 1, 2005

Executive Office of Public Safety Findings on Material Weaknesses

Finding Number 51: Federal Investigation of Byrne Formula Grant Activities

During the FY2003 single audit, it was revealed that former Executive Office of Public Safety (EOPS) employees and subrecipients were, and continue to be, the subject of a federal investigation. The investigation concerns the Byrne Formula Grant funding received during the tenure of those employees. Currently, federal investigators have not disclosed the period under investigation; however, the Byrne Formula Grant is administered by EOPS. During FY2003, EOPS expended \$10,999,270 in Byrne Formula Grant funds. These costs remain questioned until the federal investigation is completed.

The current EOPS Secretary assumed his role in January 2003. Under his direction, a complete review was undertaken of the management, oversight, and grant making practices of EOPS. During this review, it came to the attention of EOPS that the Byrne Formula Grant Program may have lacked adequate and appropriate internal controls, and that the grants awarded to subrecipients under this federal program may not have been managed in compliance with Byrne Formula Grant and EOPS guidelines.

The FY2002, FY2003, and current single audits, disclosed a number of deficiencies in the administration of the Byrne Formula Grant Program. The FY2002 single audit included five findings involving the Byrne Formula Grant with questioned costs totaling \$920,678. The FY2003 single audit contained ten findings involving the Byrne Formula Grant. The questioned costs for the Byrne Program total \$2,634,808. These were included in the total expenditures questioned (\$10,999,270). The current single audit (see finding #47) contains 16 transactions, totaling \$841,468 in questioned costs, where there was insufficient documentation to support expenditures for Byrne Formula Grant funds.

In response to the prior year's single audit, EOPS officials stated the following:

The Executive Office of Public Safety Programs Division will continue to review the office policies and procedures for awarding and monitoring federal funds. Accountability of federal funds was an influencing factor in consolidating the Executive Office of Public Safety Programs Division into the Secretariat in July of 2003. Since the consolidation, many organizational changes and additional policies and procedures have been developed to enhance internal controls in the Programs Division including: (1) Re-organization of the Programs Division, (2) Open and Competitive Grant Making Process, (3) Bill Paying Standard Policy, and (4) Additional Policies and Procedures.

Consistent with Audit Finding No. 10, the Executive Office of Public Safety has notified the State Auditor's Office of potential variances in the Byrne Grant Program pursuant to St. 1989, c. 647. In addition to the internal review commenced in early 2003 of the Byrne Program, the Executive Office of Public Safety continues to work with state and federal authorities to ensure that all variances are thoroughly investigated and referred for subsequent action where appropriate.

Discussions with EOPS senior and legal staff indicate that this investigation is ongoing. Federal investigators have not disclosed the extent and scope of the investigation. The FY2003 expenditures for the Byrne Formula Grant program totaling \$10,999,270 will continue to be questioned until the federal investigation is concluded. (*Department of Justice – Byrne Formula Grant Program 16.579; Fiscal Year 2003 Finding 28*)

Executive Office of Public Safety Findings on Material Weaknesses

Finding Number 51: Federal Investigation of Byrne Formula Grant Activities (continued)

Recommendation

EOPS should complete its internal review of all of its activities and programs with particular emphasis on the administration of the Byrne Formula Grant Program. To the extent practical and appropriate, EOPS should coordinate its internal review with the federal investigation. EOPS should consider conducting on site reviews, having an independent accounting firm or organization conduct reviews of any other subrecipient involved in this investigation to determine if funds should be refunded to the Byrne Formula.

EOPS should also continue to comply with Chapter 647 of the Acts of 1989 by immediately reporting to the Office of the State Auditor (OSA) all unaccounted-for variances, losses, shortages, or thefts of funds or property.

Department Corrective Action Plan

EOPS continues to fully cooperate with the ongoing federal investigation into certain grants and grant making processes in connection with the fiscal year ending in June 2003, prior to the appointment of Secretary Flynn, and will continue to notify both state and federal authorities of any additional issues regarding the past administration of this program. EOPS has implemented numerous fiscal controls detailed in its 2003 corrective action plan, has new management and personnel assigned to the Byrne Program, and has updated its sub-grant conditions to ensure full compliance with federal and state law. For grants to local units of government, the Byrne program is now awarded through a competitive process that includes an open solicitation and peer review of applications. The EOPS Programs Division has conditioned new funding on each program's having a single fiduciary agent responsible for grant management and has implemented technical and fiscal training as a condition of receiving a grant award.

Responsible person: Management team/Jed M. Nosal, Deputy General Counsel
Implementation date: Implemented

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 52: Internal Controls over Federal Draw Downs Need to be Improved

During FY2004, the Executive Office of Public Safety (EOPS) spent in excess of \$8.1 million dollars of Commonwealth funds for the Homeland Security Programs as of September 15, 2004. More than \$7.3 million dollars of this amount has not been reimbursed to the Commonwealth due to the lack of monitoring and not receiving an approved Grant Adjustment Notice (GAN) from the Department of Homeland Security Office of Domestic Preparedness (ODP).

Our review of the EOPS FY2003 State Domestic Preparedness Equipment Support (SHSGP) main file revealed that EOPS needed to obtain a GAN approval to remove special conditions #4, #5, and #6 from this federal grant. Special provisions are amendments to the federal grant that must be complied with in order to draw down the funds.

One of the special provisions of the grant application, pages 37 to 39 dated, April 18, 2003 submitted on April 22, 2003 states:

...as the specification for the sub awards is not currently available, the Executive Office of Public Safety is expecting a sub-grant condition prohibiting the release of funds pending the submission and approval of a detailed sub-award budget.

The recipient is prohibited from expending or drawing down equipment/exercise/training funds until an equipment/exercise/training budget detail worksheet and/or sub award list is provided to and approved by the program office and a Grant Adjustment Notice (GAN) is issued removing this special condition. Budget worksheets and sub-award lists must be drafted in accordance with the guidelines provided in the fiscal year 2003 State Homeland Security application kit.

On August 18, 2004, EOPS staff contacted the federal government to determine if the GAN was approved and determined that the ODP did not have the proper format for budget worksheets and/or sub award lists of applicable subrecipients and the GAN was not approved to release the federal funds to EOPS. Furthermore, they were informed that, until the federal government receives satisfactory information to approve the GAN, the maximum amount of the FY2003 federal funds that could be drawn down for planning and administration purposes was \$822,000.

When questioned why these funds had not been draw down, EOPS officials stated that the original federal grant manager was reassigned and replaced with a new grant manager. Until they contacted the new grant manager, they did not know that the original worksheets were not in the required format and that the submission did not contain all of the information that was needed for review and subsequent approval.

The Homeland Security federal 2003 grant for \$11,711,000 consists of four parts:

Planning	\$822,000
Training	\$616,000
Exercise	\$2,055,000 and
Equipment	\$8,218,000

Subsequently, on August 19, 2004, EOPS' SHSGP grant manager submitted 16 detailed budget worksheets of subrecipients to ODP in order to attempt to remedy this problem.

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 52: Internal Controls over Federal Draw Downs Need to be Improved (continued)

As of September 15, 2004, EOPS had only drawn down approximately \$815,000 in federal funds of the \$8.1 million that was expended by the Commonwealth and, as indicated above, the federal government will not allow draw down of the remaining funds until the GAN(s) are approved. EOPS was informed that the normal GAN review and approval process would take about three to five weeks provided everything is satisfactory.

EOPS staff informed us they received notification from ODP on September 24, 2004 that the GAN was conditionally approved for prior funds for equipment (\$8,218,000) and training (\$616,000) for special conditions #4 and #6 based upon receipt of correct information being submitted to ODP. We inquired as to the status of special condition #5 for the release of the \$2,055,000 of exercise funds. However, EOPS had no further information on the release of these funds.

Untimely monitoring, review and follow up of reimbursement from the federal government to the Commonwealth unnecessarily utilizes Commonwealth funds in a time of budget cuts and deficiencies. It also inhibits the Commonwealth from recording reimbursements in a timely manner. It is imperative that EOPS take timely and adequate follow-up action to ensure obtaining federal GAN approval to ensure federal contract compliance and to draw down timely federal fund reimbursements for state expenditures. (*Department of Justice – State Domestic Preparedness Equipment Support 16.007/97.004*)

Recommendation

EOPS should improve their federal grant management system to ensure proper submission and follow-up. EOPS should work to receive timely, the federal Grant Approval Notice (GAN) required to remove federal grant special condition restrictions.

The EOPS grant management system should ensure the necessary monitoring, review and communication to obtain Federal approval of the necessary Grant Adjustment Notice as required by the special conditions of the FY2003 State Domestic Preparedness Equipment Support Program. This system should include timely reconciliations, supervisory review and reporting to senior management. EOPS should, also, inform the Office of the Comptroller (OSC) when the GAN(s) is approved and federal funds are approved for reimbursements for eligible state expenditures on this grant.

Department Corrective Action Plan

The EOPS Programs Division will develop an internal process for ensuring that all federal Grants received are monitored and maintained by agency staff to ensure that Special Conditions attached to grants are met, and the required GANs are obtained and filed to allow for draw down of federal funds.

Responsible person: Derrick Lennon
Implementation date: February 1, 2005

Executive Office of Public Safety Findings not Repeated from Prior Years

1. The Department of Justices' (DOJ), Programs Monitoring Division performed a financial monitoring and assistance review at the Executive Office of Public Safety (EOPS) from March 26 to 28, 2003. In a letter dated May 12, 2003, DOJ made three recommendations relating to the Byrne Formula Grant Program for fiscal years 2000, 2001, and 2002. EOPS responded to the DOJ on June 11, 2003 indicating that correction action would be implemented. EOPS implemented the corrective actions as recommended by DOJ, with completion of the Byrne database and actual balances for active Byrne grants. A letter from the DOJ, Staff Accountant of the Monitoring Division, Office of the Comptroller, Office of Justice Programs, to the Assistant Secretary of EOPS, dated April 29, 2004 stated, "all [3] recommendations [are] officially closed." (*Fiscal Year 2003 Single Audit Finding 27*)
2. EOPS charged the Byrne Formula Grant \$697.60 in July 2002 to buyback a retiring employee's allowable unused leave time under the terms of the Commonwealth's FY2003 Early Retirement Incentive Program. EOPS adjusted the related entries for July 2003 to disburse the one third of leave time buyback for this employee. However, pursuant to Comptroller's Policy Memo #316 this payment was transferred to a state reserve account. (*Fiscal Year 2003 Single Audit Finding 22*)
3. EOPS made advance payment to three cities and towns from the Byrne Formula Grant and the Juvenile Accountability Incentive Block Grant when the payments should have been made on a reimbursement basis. The FY2004 single audit did not disclose any advance payments from these two federal programs. (*Fiscal Year 2003 Single Audit Finding 20*)

Office of Child Care Services Background

The Office of Child Care Services (Office) is authorized by Section 3 of Chapter 28A of the Massachusetts General Laws to be the lead agency to administer child care services within the jurisdiction of the Executive Office of Health and Human Services (EOHHS) and to communicate with other state agencies providing similar or related services outside of EOHHS.

The primary mission of the Office is to invest in our children and the well being of families by creating an integrated, high quality system of childcare. The Office establishes standards for, and monitors childcare programs throughout the Commonwealth. Licenses are issued and renewed through its five regional offices, (West Springfield, Worcester, Beverly, Taunton and Quincy) to over 15,719 providers of child care centers, nursery schools, private kindergartens, family day care homes, school age child care programs, preschool programs, residential and temporary shelter facilities for children, and foster care and adoption placement agencies with capacity to serve 232,162 children. In addition, the Office administers a primary prevention program and the Children's Trust Fund to provide statewide child abuse and neglect prevention services.

In FY2001, the Office developed and implemented comprehensive child care subsidy management software for its Child Care Resource and Referral agencies (CCRR) and its contracted providers. The CCRR system manages all functions of subsidized care including waitlist, intake, eligibility determinations, placements, provider data-agreements, program rates, and attendance, billing, and reporting and query analysis. The provider system manages the same functions except attendance and billing.

In July 2003, the EOHHS was significantly reorganized. This reorganization, which was enacted by the Legislature, reflects the Governor's vision of making state government more efficient and effective in providing services to the citizens of the Commonwealth. As a result, the 17 separate agencies under EOHHS were realigned and grouped into five offices, headed by Secretaries or Assistant Secretaries, reporting to the Secretary of Health and Human Services and reflecting the populations they serve. The five offices are:

- Executive Office of Elder Affairs;
- Department of Veterans' Services;
- Office of Health Services;
- Office of Children, Youth and Family Services; and
- Office of Disabilities and Community Services

The Office of Child Care Services was combined with the other state agencies to form the Office of Children, Youth, and Family Services.

In FY2004, the Office administered \$367.1 million. Federal funds amounted to approximately \$302.7 million. The federal funding to the Office is detailed in the accompanying Schedule of Expenditure of Federal Awards. The Office's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care Development Fund

Office of Child Care Services Findings on Compliance with Rules and Regulations

Finding Number 53: Internal Controls over Bill Payments Need Improvements

The Office of Child Care Services (Office) does not have adequate internal controls for the use, review, and payment of cell phone bills. Our review of cell phone use and bill payment for January and March 2004 disclosed that cell phone bills were being paid after the due date and the Office was incurring late fees. More significantly, the cell phones were being used for personal reasons with no review of these bills. The director of accounting was reviewing and approving his own phone use. Cell phone plans were not being reviewed for appropriateness nor was there any indication of the reason some staff members had been provided cell phones. Furthermore, bills were inappropriately charged to the Child Care Quality federal appropriation. In addition, the Office relocated in January 2004; however, the cell phone bills continued to be sent to the old address until June 2004.

Chapter 647 of 1989, An Act Relative to Improving the Internal Controls Within State Agencies states in part:

Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

Chapter 647 also sets forth six standards of internal controls, two of which state:

Segregation of Duties – Departments must establish a system to assign the following essential duties and responsibilities to a number of individuals.

- 1. Authorizing, approving, and recording transactions.*
- 2. Issuing and receiving.*
- 3. Making payments, and*
- 4. Reviewing or auditing transactions.*

Supervision – Provide qualified and continuous supervision to all staff to ensure that internal control objectives are achieved.

Additionally, MMARS Memo #289, Commonwealth's Bill Paying Policy requires that “Commonwealth bills should be paid in 30 days. Unless there is financial benefit to the Commonwealth, such as a vendor discount or a specific due date...”

The Office of the Comptroller’s, Internal Guide for Departments, Chapter Three, Department Control Activities, Fiscal Controls, Processing Payments, General Information, states:

Among other responsibilities, department heads are responsible for assuring that department staff process payment accurately and on the appropriate payment date. The Commonwealth's Bill Paying Policy is to pay all bills in 30 days via Electronic Funds Transfer (EFT). The Commonwealth's policy for the determination of a payment date is as follows:

- *a specific payment date: The date according to contractual agreements, state plans, state regulations, or a pre-payment discount.*
- *in the absence of guidance per above, the payment date will be approximately 29 calendar days after*
 - a date services were rendered, goods received or*
 - b receipt of invoices, whichever is later.*

The Office’s Administrative and Finance Policies and Procedures Manual, Section 8 “Cell Phone Policies and Procedures states clearly that the cell phones are for business use.

Office of Child Care Services

Findings on Compliance with Rules and Regulations

Finding Number 53: Internal Controls over Bill Payment Need to be Improved (continued)

As a result of the audit, Office management indicated that they would discontinue using some of the cell phones and replace them with beepers. The section of the Office's internal control plan regarding cell phones is being revised. Bill-paying procedures will be incorporated into the internal control plan. They are reviewing all cell phone bills for the fiscal year and requiring employees to pay for all personal calls. The Office is also reviewing the appropriations and federal grants charged and making corrections where appropriate.
(Department of Health and Human Services – Child Care and Development Block Grant 93.575)

Recommendation

The Office should establish internal controls and written policies and procedures regarding payment of bills that comply with Chapter 647 and the Office of the Comptroller's requirements. These procedures should include, at a minimum, a process to review cell phone plans and use, monitor the payment of bills to ensure timely payment and proper accounts being charged, and establish adequate segregation of duties for a secondary review of monthly bills. The Office should also follow their own procedures on cell phone usage to ensure that personal calls are not being paid. Further, Office management should review the appropriations and federal grants charged and make corrections as necessary.

Department Corrective Action Plan

The Office is currently updating its internal control process regarding bill payments for services. The Office appreciates the auditors' findings and now realizes the internal controls around certain bill payments, specifically the payment of cell phone bills, were not being followed. Office management was under the misimpression that staff, including supervisors, followed the established controls. The Office is building a secondary review process to ensure that this does not happen again. Towards that end, the Office is strengthening the established controls around segregation of duties. The Office will offer training to managers and supervisors on the newly established internal controls and the importance of following these procedures.

As the finding indicates, the Office has discontinued the use of assigned staff cell phones with the exception of a few senior staff members who may need to be contacted in emergencies. The Office intends to have spare cell phones available in the central office and each region for use by staff, as needed, subject to the prior approved of supervisors. The cell phone bills will be reviewed for business use and appropriateness. The use of text messaging beepers in lieu of cell phones will be tested by staff investigators, subject to proper controls. Currently, the Office's internal controls are being reviewed and new steps will be established to ensure the reassignment of segregated review and approval duties.

In addition, internal controls are being reviewed and strengthened regarding the review of appropriations charged for the use of cell phones and beepers. A quarterly review of cell phone bills by staff that use cell phones and their supervisors for the identification of personal calls and repayment will be implemented. An additional quarterly review of cell phone bills, accuracy of payments, service plan appropriateness, and segregated duties for review and approval will be conducted. Jan Avallone, Chief Financial Officer, is the responsible person to make sure controls are established and followed. The implementation date for establishing and incorporating the new controls around cell phones and other payables will be by January 1, 2005. This will allow the agency to hire and train new staff; communicate control changes to all current staff on requirements of beeper/cell phone use and payables; and finally, to develop internal audit procedures for the Office's quarterly internal audit/reviews.

Responsible person: Jan Avallone, CFO
Implementation date: January 1, 2005

Department of Transitional Assistance Background

The Department of Transitional Assistance's (Department) mission is to provide accurate and timely benefits with respect and courtesy to those in need of the Department's services. In pursuing this goal, the Department provides assistance to over a quarter of a million people in the Commonwealth each month through such programs as Transitional Assistance to Needy Families (TANF), Temporary Aid to Families with Dependent Children (TAFDC), General Relief, Supplemental Security Income, and Food Stamps. The Department also operates the employment services program, which provides basic education, skills training, job referral, career counseling, day care, and transportation services to certain AFDC and Food Stamp clients. The TANF Block Grant, which became effective October 1, 1996, and the beginning of the federal fiscal year, substantially changed the federal funding for these programs and merged the AFDC and JOBS programs into TANF.

During FY2004, the Department administered about \$837.5 million in carrying out its programs. Federal funds, including Federal Food Stamp program funding, amounted to approximately \$700 million.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.558	Transitional Assistance to Needy Families
10.551	Food Stamps Program
10.561	State Administrative Matching for Food Stamp Program

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 54: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data

The Food Stamps Report *Status of Claims Against Households (FNS 209)* submitted to the U.S. Department of Agriculture, Food and Consumer Services (USDA/FCS) for the quarter ended December 31, 2003 by the Department of Transitional Assistance (Department) was reviewed by the Food and Nutritional Services (FNS) in February 2004. Unlike previous years, the Department has completed enhancements to the *Benefit Eligibility and Control On-Line Network (BEACON)* accounting system to produce detail documentation to support FNS 209 line items, which allowed FNS to complete a thorough analysis of the FNS 209 data. The report issued by the FNS dated June 2, 2004 recommends specific actions to bring the Department into full compliance with the Food Stamp Program (FSP) regulations at 7 CFR 273.18(m). The Department's corrective action plan submitted to FNS had not been implemented at the time of our testing procedures; consequently, the following deficiencies still exist.

- Over-Payment adjustments are incorrectly reported on Line 3b. Line 14 is incorrectly used to report payments from Electronic Benefit (EBT) accounts.
- BEACON systematically places numerous active food stamp debts "In Queue" rather than automatically collecting through allotment reduction. These claims are not being collected timely due to the "In Queue" status.
- BEACON is not updating information once claim and payment types transfer from one category to another.
- The Department does not establish claims on all overpayments discovered through the Quality Control system as required by 7 CFR 273.18(e)(2)(ii).
- The Department does not meet the requirements of 7 CFR 273.18(a)(3) which require results in claims collections similar to national rates of collection. The Department's collections declined by 47.48% between 2001 and 2003.
- The Department does not compromise claims as required by 7 CFR 273.18(e)(7).
- The Department does not refer delinquent debts to the Treasury Offset Program (TOP) in a timely manner as specified in 7 CFR 273.18(n)(1).

As required by 7 CFR 273.18, the FNS 209 is submitted on a quarterly basis and is used to support the amount of outstanding claims against food stamp recipients and the amount of cash collections and recoupments made during the quarter. The accuracy of these reports is important because the Department must submit to the federal government 65% of the amount collected due to Intentional Program Violations, 80% of the amount collected due to Inadvertent Household Errors, and 100% of the amount collected due to State Agency Administrative Errors. (*Department of Agriculture – Food Stamp Program 10.551; Fiscal Year 1994; 2003 Single Audit Finding 61*)

Recommendation

The Department should implement the FNS recommendations to bring the Department into full compliance with all applicable regulatory provisions.

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 54: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data (continued)

Department Corrective Action Plan

The Department agrees with the actions recommend by FNS and has developed and submitted a corrective action plan (CAP) to FNS (as amended October 8, 2004 and submitted to FNS October 13, 2004) to meet these requirements. It is the intent of this Department to fully comply with all applicable statutory and regulatory provisions to ensure that the Massachusetts food stamp recipient claims management system provides both an effective and efficient process for collecting overpayments. As such, the following response summarizes the CAP provisions:

- Over-Payment adjustments are incorrectly reported on Line 3b. Line 14 is incorrectly used to report payments from Electronic Benefit (EBT) accounts.
 - Corrections to the FNS 209 Report will be completed and implemented with submission of the report for the 4th Quarter 2004 due to FNS on November 8, 2004.
- BEACON systematically places numerous active food stamp debts “In Queue” rather than automatically collecting through allotment reduction. These claims are not being collected timely due to the “In Queue” status.
 - All food stamp claims in the “In Queue” status have been identified.
 - Necessary systems changes to prevent inappropriate assignment to the “In Queue” status will be implemented with the next BEACON release.
- BEACON is not updating information once claim and payment types transfer from one category to another.
 - Necessary systems changes to develop and implement systems enhancements to modify the method used to change payment type based on eligibility will be implemented with the next BEACON release.
 - Corrections to the FNS 209 Report for transfers will be completed and implemented with submission of the report for the 4th Quarter 2004 due to FNS on November 8, 2004.
- The Department does not establish claims on all overpayments discovered through the Quality Control system as required by 7 CFR 273.18(e)(2)(ii).
 - Management controls and procedures have been developed and implemented to pursue all overpayments identified through the Quality Control system.
- The Department does not meet the requirements of 7 CFR 273.18(a)(3) which require results in claims collections similar to national rates of collection. The Department’s collections declined by 47.48% between 2001 and 2003.
 - The Department will propose a policy for terminating inactive accounts for review by the Food and Nutrition Service and the Massachusetts Office of the Comptroller by December 31, 2004. This policy will be incorporated into the agency Claims Management Plan within sixty days from receipt of approval from the federal and state oversight agencies.

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 54: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data (continued)

Department Corrective Action Plan (continued)

- Subsequent to approval from FNS and the State Comptroller, the Department will evaluate all delinquent accounts against the write-off policy and provide a file of potential terminated claims to the Massachusetts Office of the Comptroller for approval by April 1, 2005.
- A write-off policy for on-going claims management that meets FNS and state requirements will be developed and implemented within sixty days from receipt of approval from the federal and state oversight agencies.
- The Department does not compromise claims as required by 7 CFR 273.18(e)(7).
 - The Department will review state, federal, and department policy and complete an analysis of policy and operational requirements for review and approval by the executive staff by August 31, 2005.
 - Revisions to Department policy will be drafted and distributed for public comment by September 30, 2005. By December 31, 2005, the Department will modify the agency Claims Management Plan.
- The Department does not refer delinquent debts to the Treasury Offset Program (TOP) in a timely manner as specified in 7 CFR 273.18(n)(1).
 - The Department is committed to more frequent submission of delinquent debt to TOP and will certify delinquent debt on a semi-annual basis for claims submitted for the address request of January 2005 and July 2005. These claims will be processed using the current manual system. The first quarterly automated address submission will take place in October 2005.

Responsible person: Arthur Locke
Implementation date: November 2004 to April 2005

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 55: The BEACON System Lacks the Appropriate Segregation of Duties

The Benefit Eligibility And Control On-line Network system (BEACON) is an on-line real time, integrated, client server based system used by the Department of Transitional Assistance (Department) to provide all data necessary to determine eligibility and benefit amounts for the Department's Food Stamps, TAFDC, EAEDC, Emergency Assistance, Employment Services and Child Care Programs. The data is collected and entered on-line in real time by Assistance Unit Managers (AU Managers) for each eligible household. The system provides access control at different levels of authorization. However, we noted the lack of appropriate segregation of duties that relate to AU Managers with Level 3 access and above. These individuals can enter household data and approve their own cases, resulting in the ability to establish new cases and other significant benefit change activities and approve them for payment without them being reviewed or approved by other personnel.

The Department identified this issue in February 2002 and has acknowledged that AU Managers with Level 3 access and above have initiation and approval authority, but have indicated that this is consistent with the controls under the old PACES system and does not pose an internal control weakness. During FY2004, 25 Temporary Assistance for Needy Family (TANF) recipient case files were reviewed and in one of these cases (4%), one individual both initiated and approved benefits within the BEACON system.

In response to this issue, during FY2004 the Department implemented the corrective action plan it described in response to last year's finding. The Department developed a report entitled *All Cases Processed by One Individual* to monitor those users given the authority to both initiate and process significant case maintenance activities without supervisory review. The report was to provide a mitigating control to monitor these transactions, and provide for supervisory review and inquiry where deemed necessary. The report was generated in BEACON using specific parameters for users with authorization levels that allow them to process and approve particular case transactions. Case actions that are allowed by one individual are explicitly determined by BEACON authorization levels. However, the Department has acknowledged that the report was incorrectly coded because it reported all transactions processed by users with Level 3 access, resulting in an ineffective report. (*Department of Health and Human Services – Temporary Assistance to Needy Families 93.558; Department of Agriculture – Food Stamp Program 10.551; Fiscal Year 2002; 2003 Single Audit Finding 63*)

Recommendation

We recommend that the cases where an A U Manager with Level 3 authorization has been asked to execute the duties of a supervisor or other A U Manager, be identified in a report. The Department should communicate procedures to substantiate the review of the transactions delineated in the report. These procedures should include a review of both the BEACON system online file and the manual case file before authorizing the transaction. Evidence that the review occurred should also be formally documented.

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 55: The BEACON System Lacks the Appropriate Segregation of Duties (continued)

Department Corrective Action Plan

In response to issues raised regarding appropriate segregation of duties the Department (1) has clarified procedural expectations regarding benefit issuance, (2) will issue new instructions to clarify procedures that local office staff must follow and will implement additional procedures for documenting exceptional circumstances, and (3) has enhanced the report and clarified instructions for Management review of the report.

To clarify expectations regarding the initiation and review of benefit authorizations, the Department will issue specific written instructions to field staff. These instructions will require all benefit issuances that are new, re-opens and/or increases to be reviewed by personnel other than the individual entering the household data, and to require a Benefit Authorization Level of 3 or above. These clarifications will be communicated to staff no later than March 1, 2005.

Additional instructions will be provided to supervisors and Managers that only in specifically defined emergency circumstances are actions to be authorized by one individual. In these circumstances, the individual taking the action must have a Benefit Authorization Level of 3 or above, and will be required to document in the BEACON Narrative why the action was taken. This will allow for a more informed managerial review. The Department expects to have these instructions developed and communicated to field staff no later than March 1, 2005.

The report entitled *"Transactions Authorized by One Individual"* was developed to assist Field Operations in meeting Internal Control mandates that our procedures guarantee both a second level review of specific authorizations and a separation of duties. This report has been enhanced to identify all transactions that require a Benefit Authorization Level of 3 or above to authorize, and all transactions processed by one individual with a Benefit Authorization Level of 3 and above. Effective October 1, 2004, Transitional Assistance Office Directors were instructed to review (monthly) a sample of transactions delineated in the report, and to validate and confirm that the authorizations were prepared and completed consistent with established guidelines for supervisory sign off. The results of the reviews conducted locally are submitted to Central Office Field Operations each month, for monitoring, review and appropriate follow up.

Responsible person: Nancy Salvucci
Implementation date: October 1, 2004, March 1, 2005

Department of Transitional Assistance Findings Not Repeated from Prior Years

1. The Department of Transitional Assistance (Department) was unable to provide all of the documentation used to verify the eligibility of two TANF recipients tested. All cases tested during the 2004 Single Audit contained all appropriate documentation used to verify eligibility. *(Fiscal Year 2003 Single Audit Finding 62)*
2. The Department determined and paid the incorrect assistance for one of 25 TANF recipients tested. All cases tested during the 2004 Single Audit had the correct assistance calculated and paid. *(Fiscal Year 2003 Single Audit Finding 64)*
3. As of April 2002, the Department stopped not performing the Federal Tax Information (FTI) data match. The Department met with the Internal Revenue Service, addressed prior data security concerns, and submitted a System Request to process the information. *(Fiscal Year 2003 Single Audit Finding 65)*

**Commonwealth of Massachusetts
Higher Education
Student Financial Assistance Programs at Other Institutions
Background**

As part of the Single Audit of the Commonwealth, the Office of the Comptroller, the Office of the State Auditor of the Commonwealth and Deloitte & Touche LLP entered into a cooperative agreement to provide the necessary audit coverage for the student financial assistance programs funded by the U.S. Department of Education and administered by the Commonwealth's colleges and universities. The institutions selected for audit were determined using a risk-based approach. The institutions covered by this arrangement are as follows:

State Colleges

Bridgewater State College
Fitchburg State College
Framingham State College
Mass. Maritime Academy
Mass. College of Art
Mass. College of Liberal Arts
Salem State College
Westfield State College
Worcester State College

Community Colleges

Berkshire Community College
Bristol Community College
Bunker Hill Community College
Cape Cod Community College
Greenfield Community College
Holyoke Community College
Massasoit Community College
Mass. Bay Community College
Middlesex Community College
Mt. Wachusett Community College
North Shore Community College
Northern Essex Community College
Quinsigamond Community College
Roxbury Community College
Springfield Technical Community College

During FY2004, the Office of the State Auditor performed the audit of the student financial assistance programs at four institutions selected using the risk-based approach. These institutions were: Roxbury Community College, Bunker Hill Community College, Worcester State College, and Bridgewater State College. As a result of these audits, findings are presented for Bunker Hill Community College, Bridgewater State College, and Roxbury Community College.

The University of Massachusetts contracted for an audit in accordance with OMB Circular A-133 for FY2004 with an independent public accounting firm. Separate reports on compliance, internal controls, and a Schedule of Expenditures of Federal Awards, and the Data Collection Form are issued as a result of this audit. The findings resulting from the audit of the University of Massachusetts are excluded from this report.

Institutions of Higher Education Bunker Hill Community College Findings on Compliance with Rules and Regulations

Finding Number 56: Outstanding Checks Need to be Transferred to the Office of the State Treasurer's Unpaid Check Fund

A review of the Bunker Hill Community College (College) Main Bank Account as of June 30, 2004 identified 163 checks totaling \$42,884 that had been outstanding for 12 to 24 months. Of these checks, \$42,778 represented student refunds, for both financial aid and non-financial aid recipients. Of the financial aid recipients, the refunds represented federal and/or state funds.

Chapter 29, Section 32 of the Massachusetts General Laws requires that checks outstanding over one year be transferred to the Office of the State Treasurer and Receiver General's (TRE), Unpaid Check Fund as follows:

Any check issued by the State Treasurer or by any agent or agency of the Commonwealth, other than checks issued in payment of obligations of the State Board of Retirement and the Teachers' Retirement Board, which is not presented for payment within one year from its date shall be payable only at the Office of the State Treasurer. On the thirtieth day of June in each year the Comptroller shall transfer to the abandoned property fund all funds which are identified by the State Treasurer as funds of the Commonwealth which have remained in the unclaimed check fund for at least one year...

The College's business office in accordance with the College's internal control manual considers outstanding checks to be classified as abandoned property, and as such has been annually transferring these funds to TRE in accordance with M.G.L. Chapter 200A, which requires funds over three years old to be forwarded to the TRE as abandoned property. Their records indicated that FY2002 and FY2003 abandoned property funds were sent to the TRE, and represented outstanding checks for the periods covering July 1, 1998 through June 30, 2000. College officials indicated that they had discussed this issue with the Controller's of the other community colleges, and were of the opinion that they were following and in compliance with MGL Chapter 200A. College officials believe that both MGL Chapter 29, Section 32, and Chapter 200A apply to unpaid checks and that clarification is needed.

As a result, the College does not comply with General Law Chapter 29, Section 32. Once the college was made aware of this statute, they immediately took the necessary steps to adjust their bank account, determine if any of the outstanding checks represented student accounts from whom a balance is owed the College, and transfer the remaining funds to the TRE. (*Department of Education - Federal Supplemental Educational Opportunity Grants 84.007, Federal Work-Study Program 84.033, and Federal Pell Grant Program 84.063*)

Recommendation

It is recommended that College include in its Internal Control manual the procedure that require the transferring of outstanding checks over one year old to the Unclaimed Check Fund (UCF) within one year of its payable date in accordance with Chapter 29, Section 32 of the M.G.L.s. It is good business practice not to hold onto outstanding checks for three years, even though this complies with Chapter 200A.

Department Corrective Action Plan

After discussing this matter with the audit Team, the College made necessary adjustments and transferred outstanding checks to the UCF pursuant to provisions of MGL Chapter 29 Section 32. The College will revise its internal control manual to include a procedure whereby unclaimed checks over one year old will be transferred to the UCF in accordance with Chapter 29 Section 32 of the M.G.L.s.

Responsible person: Jesse M. Thompson, Vice President of Administration
Implementation date: Continuing

Institutions of Higher Education Bunker Hill Community College Findings on Compliance with Rules and Regulations

Finding Number 57: Controls Needed Regarding Distribution of College Work-Study Paychecks

Bunker Hill Community College (College) received \$216,624 in Federal Work-Study (FWS) Funds for the period July 1, 2003 through June 30, 2004. Approximately 137 students participated in the FWS program for this period.

Our review of the program included gathering information on the procedures for determining the needs of the College for FWS jobs, communicating availability of these positions to interested qualified students, awarding FWS funds, describing and verifying work performed, testing of the payments made to a sample of students participating in the program, analyzing the paychecks issued, and reviewing the College's payment procedure.

While interviewing payroll personnel concerning the procedures for distributing FWS paychecks, an instance of a student receiving a check without showing a student ID or other form of identification was observed. The student did not sign for the receipt of the paycheck. We questioned personnel within the College's payroll office regarding the procedural requirements for picking up FWS paychecks and were informed that students were not required to show an ID or sign for checks. The only exception to this procedure was when another person was picking up the paycheck for a FWS student. That person was required to sign for the paycheck, but was not required to show any form of identification or authorization to pick up the check on another student's behalf.

The *Financial Aid Payroll Process and Student Check Distribution* procedure as stated in the College's internal control policy, states that:

"The payroll process involves first paying the students' financial obligation to the College and, then distributing the balance to the students. Checks may be picked up at the Bursar's Office with prior approval. Otherwise, they are mailed to the students. Student ID or other identification card with the student's picture on it is required when the checks are picked up."

Personnel within the Bursar's Office had not been instructed to verify identification of students requesting their FWS checks. The human resource manager was not aware of the requirement in the internal control policy. The lack of a requirement for identity verification, signature for FWS paychecks, and authorization to pick up paychecks on another student's behalf, makes the College vulnerable for potential theft or abuse of these funds. (*Department of Education - Federal Work-Study Program 84.033*)

Recommendation

The Payroll office should begin the practice of requiring a student ID or other identification in distributing FWS checks. To further safeguard the receipt of FCSW paychecks, students should also be required to sign a distribution record upon receipt of the paycheck, and provide authorization to pick up a paycheck on another student's behalf. These actions would provide proper documentation for each student receiving FWS funds.

Department Corrective Action Plan

Effective with the September 24, 2004 pay period, staff in the College's payroll office implemented a procedure whereby a student must show identification and sign a distribution record upon receipt of a paycheck. In addition, one must provide authorization to pick up another person's paycheck.

Responsible person: Jesse M. Thompson, Vice President of Administration
Implementation date: September 24, 2004

Institutions of Higher Education Bridgewater State College Findings on Compliance with Rules and Regulations

Finding Number 58: Fraudulent Time Records Submitted by a Student in the College Work-Study Program

Bridgewater State College (College) discovered fraudulent timesheets within its Federal Work-Study Program (FWS) resulting in a theft of \$998. A student submitted false timesheets to the College's payroll department for work that was not performed during four weeks of the spring semester of 2003 and during six weeks of the spring semester of 2004. The student perpetrated this fraud by forging the signatures of the supervisors' of the CWS programs for which he was employed.

FWS students are allowed to work no more than 40 hours in a two-week pay period and only 20 hours each week. The student in question submitted a timesheet for 104 hours in a two-week pay period in the spring of 2004. This alerted College staff to a problem. Their review of student payroll identified this as a potential overpayment, along with possible forged signatures and timesheets that were not on the College's standard preprinted form.

A subsequent investigation by the human resources department uncovered the timesheet discrepancies noted. The College staff notified college security of this potential overpayment and related suspicious activity. A subsequent investigation by law enforcement authorities has lead to the arrest of the student. The case is pending further prosecution.

The College is required by 34 CFR 675.19 (2)(i), as cited below, to establish fiscal procedures to have safeguards in place over the certification of student's FWS program work, prior to making a payment to the student.

Include a certification by the student's supervisor, an official of the institution or off-campus agency that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day;

The College's Student Employment Manual also states in part that:

"...All time off should be discussed in advance and approved by the supervisor. Student employees are expected to contact their direct supervisor to report tardiness or absence. All work-study and College-funded student employees must fill out timesheets to record time worked. Timesheets are mailed to the department and should arrive the day before the new pay period begins. If a student does not receive an expected timesheet, please contact a Student Employment representative. (New student employees may have to obtain a hand-written timesheet directly from Student Employment Services).

The supervisor is responsible for submitting timesheets to the Payroll Office by noon on the due date in order to produce a paycheck by the next Friday. The due date is five days after the end of the pay period. This allows the student ample time to have the timesheet completed and submitted with the authorized signature(s). It is the student's responsibility to get the timesheet to his or her supervisor to be signed. Once signed it is the supervisor's responsibility to submit all timesheets. Student employees will not be paid without a signed timesheet."

Because of this instance, we tested student timesheets for February and March of 2004 to determine if there were adequate internal controls over the CWS payroll and whether the payroll was proper and adequately documented. Our review disclosed the following:

- Some department supervisors did not comply with College requirements for submitting timesheets to the payroll office. Instead they returned the timesheets to the students, who in turn, would submit them to the payroll office

**Institutions of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

Finding Number 58: Fraudulent Time Records Submitted by a Student in the College Work-Study Program (continued)

- Students did not use the College's required pre-printed timesheets in all instances. In some instances the College accepted timesheets without the payroll systems pre-printed control features, which includes the pay period, pay rate, employee identification number, return date, accounts to be charged and the student's classification title. Students were allowed to fill in the control information and submit timesheet to the payroll office, thus circumventing the College's internal controls. Our review of 1,375 timesheets disclosed that 124 timesheets or 9% were not submitted with the pre-printed information and that the student filled in the information.
- Appropriate signatures were not on the timesheets in accordance with the College's policies and procedures. Our review of 1,375 timesheets disclosed that 41 timesheets did not have a student signature and 11 timesheets did not have a supervisor's signature.

The College plans to revise the student handbook concerning the FWS program, streamline the timesheet process, and begin to more closely monitor both the awards to students and the status of those awards as the academic year progresses. The student employment office has begun to implement management controls within FWS programs by increasing the review of the payments to work-study students.

Once the College's Controller determined that a fraudulent payment was made from FWS monies, she immediately reimbursed the FWS program with College funds. (*Department of Education - Federal Work-Study Program 84.033*)

Recommendation

The College should review and improve its internal controls within its FWS program. Procedures must be put into place to ensure that internal controls are functioning as intended. These internal controls must also be extended throughout all College departments participating in the FWS program. College staff should be advised of their responsibilities with regard to payroll procedures and student employee practices. The College should periodically review these procedures and provide ongoing oversight to prevent conditions cited from recurring.

Department Corrective Action Plan

As part of updating the internal control plan, the Office of Human Resources will revise the policies and procedures surrounding the FWS program. To ensure compliance, the updated policies and procedures will be communicated to all College departments.

Responsible person: Peter Martel, Associate Vice-President, Human Resources
Implementation date: June 30, 2005

**Institutions of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

Finding Number 59: Student Loan Disbursement not Made in Required Timeframe

Bridgewater State College (College) did not comply with regulations that require it to make at least two disbursements during a payment period in the Direct Student Loan Program.

Our review of five student files disclosed that one student who received a Direct Student Loan for the spring 2004 semester received only one disbursement totaling \$1,724 on February 13, 2004. The student should have received a \$862 loan disbursement at the beginning of the semester and a \$862 loan disbursement after the midpoint of the semester as required by 34 CFR 685.301(b) as follows:

" If a loan period is one payment period, the school must make at least two disbursements during that payment period. The school may not make the second disbursement until the calendar midpoint between the first and last scheduled days of class of the loan period.

By not adhering to regulations regarding the disbursement of funds to students, students may receive funds they are not entitled to. This provision also places the inherent responsibility upon the College to ensure successful academic progress is being made by the student before disbursement of final loan proceeds. (*Department of Education - Direct Student Loan Program 84.268*)

Recommendation

The College should comply with regulations regarding the disbursement of Title IV funds to students.

Department Corrective Action Plan

In accordance with Federal regulations, the College's policy is to make two disbursements in one semester for Direct Stafford loans. Due to an oversight, the above mentioned student was initially awarded for the entire academic year but chose to enroll for one semester only, therefore requiring a manual adjustment. During this manual process, his pay code was inadvertently entered in error, which caused the student to receive his correct loan amount, but in one disbursement.

Responsible person: Janet Gumbris, Director of Student Financial Aid
Implementation date: Completed

**Institutions of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

Finding Number 60: Untimely Student Exit Counseling Sessions and Inadequate Coordination between College Departments for the Administration of the Federal Perkins Loan Program

Bridgewater State College (College) was not timely in conducting exit counseling sessions with students, and complying with the due diligence requirements regarding the coordination of information among its departments that manage and administer Federal Perkins Loans (FPL). Our review of six student files for students receiving FPL disclosed that:

- Conversion from the grace or deferment status to the repayment status was not timely for six students. Conversion occurred four months after the students were no longer enrolled at least half time.
- Exit counseling and loan repayment schedules were four months late for five students who graduated in May 2003.
- Required 90-day contact after a grace period by the College to inform the student of his/her responsibilities was not done for five students.

Federal regulation, 34 CFR 668, states in part as follows:

- (5) The institution must maintain documentation substantiating the school's compliance with this section for each borrower. . .*
- (c) Contact with the borrower during the initial and post deferment grace periods.*
- (1)(i) For loans with a nine-month initial grace period (NDSLs) made before October 1, 1980 and Federal Perkins loans), the institution shall contact the borrower three times within the initial grace period.*
- (ii) For loans with a six-month initial or post deferment grace period (loans not described in paragraph (b)(1)(i) of this section), the institution shall contact the borrower twice during the grace period.*
- (2)(i) The institution shall contact the borrower for the first time 90 days after the commencement of any grace period. The institution shall at this time remind the borrower of his or her responsibility to comply with the terms of the loan and shall send the borrower the following information:*
- (A) The total amount remaining outstanding on the loan account, including principal and interest accruing over the remaining life of the loan.*
- (B) The date and amount of the next required payment.*

The College's Perkins Loan Department was not notified until more than four months after the six students were no longer enrolled at least half time. Procedures were not in place to ensure that students received proper notification and exit counseling for their Perkins Loan repayment responsibilities. Federal regulation, 34 CFR 674.33(a) requires:

"Repayment Plan. (1) The institution shall establish a repayment plan before the student ceases to be at least a half-time regular student."

34 CFR 674.42(b) Exit Interview states:

- (1) An institution must ensure that exit counseling is conducted with each borrower either in person, by audiovisual presentation, or by interactive electronic means. The institution must ensure that exit counseling is conducted shortly before the borrower ceases at least half-time study at the institution."*

**Institutions of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

Finding Number 60: Untimely Student Exit Counseling Sessions and Inadequate Coordination between College Departments for the Administration of the Federal Perkins Loan Program (continued)

34 CFR 674.41 Due diligence -general requirements further state:

(b) Coordination of information. An institution shall ensure that information available in its offices (including admissions, business, alumni, placement, financial aid and registrar's offices) is provided to those offices responsible for billing and collecting loans, in a timely manner, as needed to determine-

1. *The enrollment status of the borrower;*
2. *The expected graduation or termination date of the borrower;*
3. *The date the borrower withdraws, is expelled or ceases enrollment on at least a half-time basis; and*
4. *The current name, address, telephone number and Social Security number of the borrower.*

The College did not meet the due diligence requirements applicable to the coordination of information mandated for the FPL program because of its lack of communication between departments in managing and administering it. By not having effective procedures in place, the College delayed students from entering their proper grace period before beginning their repayment of the loan. These delays resulted in the students' being given an extended three-month grace period for repayment of their Perkins loans. According to 34 CFR 674.31 (b) 2(B) the repayment period begins nine months after the borrower ceases to be enrolled at least a half-time at an institution of higher education. In addition, the *Federal Student Aid Handbook*, Volume 5 Perkins Loans, 2003-2004, Page 5-24 requires that the initial grace period begin the day after the day in which the borrower drops below half-time enrollment.

Because the College did not exercise due care and diligence in managing and administering the FPL program, it compromises the federal government's ability to effectively administer these Title IV loans. Accurate enrollment status information is the foundation on which the federal government determines deferment eligibility, grace periods, repayment schedules, and the government's payments of interest subsidies. (*Department of Education - Federal Perkins Loans 84.038*)

Recommendation

The College should review its procedures to ensure that due care and diligence in managing and administering the Federal Perkins Loan Program. The College must ensure that its departments coordinate accurate changes in student enrollment information on a timely basis, students are notified timely of their repayment responsibilities, students are given timely exit counseling, and students are placed in proper grace period and repayment status.

Department Corrective Action Plan

The College does not agree with the finding, but does agree that current policies and procedures can be enhanced to ensure the proper coordination of student enrollment data. The College provides the student with a statement of Rights and Responsibilities before receiving any funds from the Perkins Loan Program. Included in this statement is information about the repayment plan, grace period, and interest rate. At the end of each semester, students are informed of the type of loan received and the amount borrowed for each loan program. They are also instructed that they are required to attend an exit interview, either on-line or in person, prior to leaving the College.

Responsible person: Janet Gumbris, Director of Financial Aid
Darlene Costa-Brown, Associate Vice-President/Controller
Implementation date: June 30, 2005

Institutions of Higher Education Bridgewater State College Findings on Compliance with Rules and Regulations

Finding Number 61: Improvements Needed in the Implementation and Updating of Quality Assurance Systems for the Direct Student Loan Program

Bridgewater State College (College) did not implement a quality assurance system required by the U.S. Department of Education (USDOE) to ensure the College is complying with program requirements in the Federal Direct Student Loan program (DSL). College officials did not implement and maintain the Quality Assurance Management Action Plan that it developed in 1996 and has not performed follow-up assessments on a continuous basis.

In order to participate in the DSL program a school must enter into a program participation agreement with the USDOE in which the College is required to comply with applicable regulations. These include the development, implementation, and maintenance of a quality assurance system. The Higher Education Act (HEA) Sec. 454, cited below, requires Colleges to enter into participation agreements with USDOE.

(a) PARTICIPATION AGREEMENTS - An agreement with any institution of higher education for participation in the direct student loan program under this part shall-

(5) Provide for the implementation of a quality assurance system, as established by the Secretary and developed in consultation with institutions of higher education, to ensure that the institution is complying with program requirements and meeting program objectives;

On July 16, 1996, the College sent a Quality Assurance Certification to the USDOE, attesting that it had completed the DSL program Assurance Management Assessment and the DSL program Quality Assurance Management Action Plan. The College also submitted a Mid-Year Progress Report to USDOE describing the College's progress in carrying out management assessment activities. The Progress Report stated that the College had established a Quality Assurance (QA) file, had initiated, and were progressing as scheduled in the area of management assessment activities. The College's QA file has had no further documentation added since July 16, 1996.

Federal regulation, 34 CFR 685.300 (a)(9), requires the College to implement a QA system, as established by the Secretary and developed in consultation with the College, to ensure that the College is complying with program requirements. The **Federal Direct Loan School Guide** addresses this regulation of development of a Quality Assurance System. The guide in Chapter 4, page 20 states as follows:

By signing the Direct Loan amendment, a participating school is required to have a quality assurance (QA) system for its Direct Loan Program operations. Each school decides for itself how it ensures data accuracy, internal consistency, timeliness, and effective management procedures. Approaches vary from school to school, depending on the size of the student body, staffing, and degree of automation. ED[Department of Education] does not have specific QA requirements that schools must follow. Each Direct Loan school, however, must:

- Establish its own QA system and*
- Document its QA activities in a central master file at the school*

....A QA system helps create a smooth transition to the Direct Loan Program, ensures program integrity and effective stewardship, and maximizes service to students. The reason: QA approaches are designed to anticipate problems that might occur and to identify actual problems early. As a result, a quality assurance system can reduce the number and severity of the problems that might occur as a school implements the Direct Loan Program.

**Institutions of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

Finding Number 61: Improvements Needed in the Implementation and Updating of Quality Assurance Systems for the Direct Student Loan Program (continued)

This gives a school a framework for developing:

Direct Loan procedures that are tailored to its resources, organizational structure, and students needs. Quality assurance has the concept of continuous improvement as its basis. It uses the following five steps, which are progressive and interrelated:

- *Strategic planning,*
- *Employee involvement,*
- *Structured problem solving,*
- *Performance measures, and*
- *Corrective action*

A quality assurance system must be ongoing and continuous due to the changing nature of federal regulations and technological advances in order to determine the effectiveness of the College's administrative procedures. The College should have performed on-going assessments and developed management improvement initiatives, which are reflective of changes in federal requirements. These assessments should have been documented in the College's QA file. College officials should have communicated these initiatives to the appropriate departments involved in the DSL program in order to improve management systems, correct problems, and enhance operations. Not reviewing and updating a QA system may result in a College' inability to detect weaknesses in the system, leading to noncompliance with federal requirements, a lack of effectiveness in their administrative procedures, and institutional management systems. (*Department of Education - Direct Student Loan Program 84.268*)

Recommendation

The College should review and update its procedures in order to adhere and comply with the requirements of the HEA and other federal regulations in the implementation and maintenance of a QA system for the Federal Direct Loan Program.

Department Corrective Action Plan

The College does not concur with this finding and is in full compliance. In 1996, the College began its participation in the Federal Direct Loan Program. A QA Plan required by USDOE was completed and implemented. The Plan was formulated according to Federal guidelines in order to ensure quality management of the program. It consisted of a Direct Loan Quality Assurance Management Assessment and Management Plan. The Quality Assurance Certification was signed by former President Adrian Tinsley and forwarded to USDOE on July 16, 1996. In order for the College to participate in the Direct Student Loan Program, this assessment was mandatory. For on-going success and adherence to federal guidelines in the program, USDOE does not require institutions to use the assessment worksheets that were initially used to implement the program. Rather, the College assures quality of the program by maintaining a Direct Loan policies and procedures manual to remain compliant with changing institutional practices and federal regulations.

Responsible person: Janet Gumbriis, Director of Financial Aid
Implementation date: June 30, 2005

Institutions of Higher Education Roxbury Community College Findings on Reportable Conditions

Finding Number 62: Roxbury Community College Administration Needs Improvement

During the FY2004 Single Audit, we found that Roxbury Community College (College) made continued progress in improving its administration over Student Financial Assistance (SFA) programs and other financial areas.

Our follow-up audit disclosed improvements in addressing one of the prior year's two audit issues. The College established procedures to document a high school diploma in each student's folder; however, improvements are still needed in the timely reconciliation of non-appropriated funds and documentation of adjustments.

The College provided us with an updated corrective action plan, which disclosed the status of the prior audit findings as of March 3, 2004 as follows:

- The College will move as expeditiously as possible with the full implementation of the Jenzebar system. The managers for the various components of operation (i.e., Business Office, Student Financial Assistance, Registrar's Office, Admissions, etc.) will ensure the timely implementation of the system. The Vice President for Information Technology/Chief Information Officer will provide leadership and coordination for the overall implementation of the system.
- The College will fully implement the Jenzebar financial system by ensuring that all relevant financial data are entered in a timely manner.
- The College initiated the practice of reviewing and updating its policies and procedures annually in FY2003. Individual department heads will be responsible for their department's compliance with policies and procedures.
- The College will continue to improve the administration, documentation, and oversight of SFA programs. The overall improvement of SFA administration has been identified as a major priority for the College and will remain a priority during the years to come.
- The College will continue to implement administrative improvements that were identified in the Corrective Action Plan Update. The improvements will be continually monitored and reviewed by an internal task force of employees.

During our follow-up audit, we determined that the Jenzabar system, although in place and working, is providing insufficient assurance and output documentation. The College, therefore, is not fully confident with the system. The College still relies on other supporting documentation, such as, Excel spreadsheets to summarize the type of data that should be readily available from the Jenzabar system for reporting and verification purposes. The College recognizes that shortfalls still exist and the need to make ongoing improvements continues.

The College has hired a consultant to review, analyze, and make recommendations to the president regarding improvements to the SFA processes. This consultant will also provide assistance with the development and implementation of the Jenzabar general ledger. In addition, the consultant was involved in a newly formed compliance committee. This committee consisted of representatives from administration, financial aid, registration, and the business offices to discuss SFA processing issues. The consultant contract ended on June 30, 2004; however, the Compliance Committee, under the leadership of the Vice President of Administration and Finance and a new Vice President of Enrollment Management and Student Affairs, continues to review SFA processing issues so that the College will be in a position to process financial aid accurately and effectively.

Institutions of Higher Education Roxbury Community College Findings on Reportable Conditions

Finding Number 62: Roxbury Community College Administration Needs Improvement (continued)

As previously discussed in Finding Number 12, the College informed us that outstanding utility bills for the Reggie Lewis Center (RLC) have not been paid over a three-year period. The College did not monitor the financial activity at the RLC; furthermore, there were no written internal controls or detailed policies and procedures on how bills should be processed and paid. The College has taken corrective action and implemented policies and procedures for the RLC to account for, process and pay bills.

The College's independent audit firm issued a report of the College's financial statements for FY2003. The auditor's report identified three reportable conditions, not only in SFA, but also in overall matters that were not corrected from the College's FY2002 audit. The report disclosed that the College did not have 1) a completely integrated general ledger system, 2) an accurate listing of student accounts receivable from its computer software system, and 3) adequate controls in remitting employee retirement withholdings to the appropriate administrator. No new reportable conditions were disclosed. The independent audit firm is currently auditing the College's FY2004 financial statements and following up on the three reportable conditions listed above. (*Department of Education - Federal Supplemental Educational Opportunity Grants 84.007, Federal Work-Study Program 84.033, and Federal Pell Grant Program 84.063; Fiscal Year 2001; 2003 Single Audit Finding 67*)

Recommendation

The College should continue to implement improvements as planned. It must update and monitor its new electronic management database and financial operating system to ensure that these applications are performing as planned. Correction of prior years' audit results should be monitored to ensure that full corrective action is implemented. The College's newly formed compliance committee should continue to review and evaluate the SFA processes and update policies and procedures as needed. All necessary recording of financial awards, activity, and reporting must be monitored with any adjustments being made immediately into the College's electronically controlled operating system.

Department Corrective Action Plan

Compliance committee or subcommittees meet regularly to improve data collection, processes, and output. The College will continue to implement administrative improvements. Improvements will be continually monitored and reviewed by an internal task force of employees.

Responsible person: Cliff Williams

Implementation date: On-going

Institutions of Higher Education

Findings not Repeated From Prior Years

1. Quinsigamond Community College (College) needed to improve its practices and procedures in handling outstanding or returned checks. College policies did not ensure compliance with Chapter 29, Section 32 of the Massachusetts General Laws, which requires checks outstanding over one year old to be transferred to the Office of the State Treasurer's (TRE) Unclaimed Check Fund or federal grantee. The College had 98 checks totaling \$29,602 that had been outstanding from 1 to 3 years. The College indicated that they have taken corrective action and immediately began to transfer funds to the Unclaimed Check Fund in accordance with Chapter 29, Section 32 of the Massachusetts General Laws. Currently, the College is remitting outstanding checks over a year old to the TRE's Unclaimed Check Fund or to the federal grantee as applicable. *(Fiscal Year 2003 Single Audit Finding 66)*

2. Roxbury Community College (College) awarded Pell Grants to students who did not have a high school diploma or its equivalent. Student files did not contain any evidence that these students had the required high school diploma or its recognized equivalent prior to determining eligibility to receive federal assistance. This finding was a continued finding from the Single Audit of 2002. Currently, the College has taken steps to verify and confirm students having a high school diploma or its equivalent. A review of 25 student files found all students' files contained diplomas or its equivalent. *(Fiscal Year 2003 Single Audit Finding 68)*